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PRINCIPLES AND PRACTICE OF
INDUSTRIAL ASSURANCE

BY

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PREFACE TO SECOND EDITION

IN some respects it is unfortunate that a new edition has had to be produced at a time when the requirements of a nation at war make it necessary to economize to the full on materials of all kind and on man power. In the nine or ten years that have elapsed since the publication of the first edition there have been developments in the business of industrial assurance, but in view of the restrictions imposed by the times the authors have not been able to deal with them as fully as they would have wished. It has been necessary to delete as much as possible from and to add as little as possible to the first edition. The work has, however, been completely revised and brought up to date as regards current practice.

PREFACE TO FIRST EDITION

THE importance of the business of Industrial Assurance, affecting as it does millions of policyowners throughout the British Isles, and giving employment to thousands of workers, both on the inside staffs of the Offices and in the field, has long been recognized. With a view to ensuring that the younger men and women engaged in the business shall have a sound knowledge of its technique, the Chartered Insurance Institute has now made it possible to obtain an Associateship Certificate in Industrial Assurance. This book is written primarily as a textbook for students, but it is anticipated that it will be of interest to many others in the business who desire a general knowledge of its special peculiarities and difficulties.

Industrial Assurance Law is treated in a general way to enable the interpretations of the Acts of Parliament governing the business to be understood. Many interpretations of the law to which reference is made in the text consist of decisions by the Industrial Assurance Commissioners of Great Britain and Northern Ireland respectively, which are in the nature of arbitrations and would not be taken as precedents in an ordinary Court of Law, and it may be remarked that the two Commissioners do not always accept each other's views as being correct. It has been found expedient in some instances to refer to the more important legal and Commissioners' decisions in the course of a chapter, and in others to summarize them at the end of a chapter. The reader is presupposed to have a knowledge of law affecting life assurance

practice generally, and reference is made only to certain special features affecting Industrial Assurance.

The reader will understand that the interpretation of recent legislation is so controversial as frequently to give rise to the taking of counsels' opinions and to lawsuits, so that new and important interpretations and decisions are made available from time to time. He should, therefore, supplement this book by reading the Commissioners' Annual Reports as they are published and any other available documents relating to the business, in order that his information may be quite up to date.

The ramifications of Industrial Assurance are so wide as to make it impracticable to deal fully with the subject in a single volume, but the authors anticipate that additions will be made in due course to the literature on the subject which will deal in greater detail with certain aspects to which they have referred only briefly or have neglected entirely.

The authors alone are responsible for opinions expressed, and it is not to be thought that they are to be attributed to the Industrial Assurance Commissioner or to the Industrial Offices themselves, unless this is specifically stated to be so.

In the preparation of the book it was necessary to approach many Offices for information regarding Office practice, and the authors desire to record their appreciation of the invaluable assistance they invariably received. They desire also to thank Messrs. C. W. Kenchington, F.I.A., J. Murray Laing, F.I.A., F.F.A., K. J. Britt, F.I.A., F.F.A., N. A. Horsley, F.I.A., F.F.A., and others, for many useful suggestions and for much helpful criticism.

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INSET

ABBREVIATIONS USED

1. The expression *Industrial Assurance Offices*, or simply *Offices*, is used to include both *Industrial Assurance Companies* and *Collecting Friendly Societies*.

2. The expression *Industrial Assurance Companies*, or simply *Companies*, refers to companies within the meaning of the Industrial Assurance Act, 1923, and includes both *mutual* and *proprietary* concerns.

3. The following are examples of the manner in which the reader is referred to the Commissioners' Annual Reports—

(*a*) 1928 E. 17
signifies page 17 of the Annual Report of the English Commissioner for the year 1928.

(*b*) 1930 N.I. 53
signifies page 53 of the Annual Report of the Commissioner for Northern Ireland for the year 1930.

4. (*a*) Where reference is made to "the 1923 Act," the Industrial Assurance Act, 1923, is intended.

(*b*) Where reference is made to "the 1929 Act," the Industrial Assurance and Friendly Societies Act, 1929, is intended.

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PRINCIPLES AND PRACTICE OF
INDUSTRIAL ASSURANCE

CHAPTER I

HISTORY OF INDUSTRIAL LIFE ASSURANCE—FEATURES OF THE BUSINESS

IT is important that the reader should have at the outset a clear understanding of the term "Industrial Assurance Business."

DEFINITION OF INDUSTRIAL ASSURANCE BUSINESS

Industrial assurance business is defined in the Industrial Assurance Act, 1923 [Section 1 (2)], as—

> The business of effecting assurances upon human life premiums in respect of which are received by means of collectors:
> Provided that such business shall not include—
> (*a*) assurances the premiums in respect of which are payable at intervals of two months or more;
> (*b*) assurances effected whether before or after the passing of this Act by a society or company established before the date of the passing of this Act which at that date had no assurances outstanding the premiums on which were payable at intervals of less than one month so long as the society or company continues not to effect any such assurances;
> (*c*) assurances effected before the passing of this Act, premiums in respect of which are payable at intervals of one month or upwards, and which have up to the commencement of this Act been treated as part of the business transacted by a branch other than the industrial branch of the society or company;
> (*d*) assurances for twenty-five pounds or upwards effected after the passing of this Act, premiums in respect of which are payable at intervals of one month or upwards, and which are treated as part of the business transacted by a branch other than the industrial branch of the society or company, in cases where the Commissioner hereinafter mentioned certifies that the terms and conditions of such assurances are on the whole not less favourable to the assured than those imposed by this Act.

The important points of this definition are—

(1) The assurances are assurances upon human life;
(2) Premiums are received by means of collectors; and
(3) Premiums are payable at intervals of less than two months.

The expression "collector," as defined in Section 45 (1),

includes every person, howsoever remunerated, who, by himself or by any deputy or substitute, makes house-to-house visits for the purpose of receiving premiums, or holds any interest in a collecting book, and includes such a deputy or substitute.

Who May Transact the Business

Under the provisions of Section 1 (1) of the Act, industrial assurance may not be carried on except by a registered friendly society or by an assurance company within the meaning of the Assurance Companies Act, 1909, which is registered either under the Companies Acts or under the Industrial and Provident Societies Acts, 1893 to 1913, or which is incorporated by special Act.

Registered friendly societies and assurance companies which carry on industrial assurance business are known respectively as "collecting societies" and "industrial assurance companies." The expression "industrial assurance companies" includes mutual societies and proprietary companies, which are all "companies" within the meaning of the Act.

Extent of the Business

The following figures relating to the year 1938 have been extracted from the Statistical Summaries, 1928–1938, published by the Industrial Assurance Commissioner. They indicate to some extent the magnitude of the business, and the important part it plays in the life of the community.

	Premiums Received During Year	Funds at End of Year
	£	£
Industrial Assurance Companies .	57,996,907	359,219,314
Collecting Societies . . .	13,829,260	76,192,053
Total	£71,826,167	£435,411,367

The total number of assurances in force at the end of the year was 101,221,203.

This position has been reached only after many years of constant endeavour, for, like all other industries, the business of industrial life assurance has grown from small beginnings.

Short History of the Business

From the earliest times there seems to have been a desire among the poorer classes to invest funerals with pomp and glamour. This desire, laudable in many ways, led to the formation of the early Burial Clubs. Their origin is obscure, but evidences of their existence go back to early Greek and Roman days. They

appear to have existed also in China for many centuries, and do so in fact exist to-day.

In Great Britain, as in other countries, the early Burial Clubs were essentially mutual in character, and they provided for the funeral expenses of a member by means of a levy on the surviving members. They were local societies, and there existed within each a bond of fellowship and goodwill which effectively prevented abuse. Their character remained unchanged until the Industrial Revolution in the latter half of the eighteenth century began to change England from an agricultural to a manufacturing country. The steady drift of the population from the countryside into the towns progressed on so large a scale that soon the majority of people were leading an urban rather than a rural life.

The effect of the movement was to destroy very largely the local character of the Burial Clubs, and abuse, which had been practically unknown in the early days, began to creep in. With the rapid growth in the population of the towns which accompanied the Industrial Revolution, the need for death assurance increased, and the way was paved for the formation of Burial Clubs by unscrupulous people, whose only object was to make money quickly, even if dishonestly. Premiums were received, but there was no intention of paying claims. As soon as the possibilities of one district were exhausted, the promoters simply moved on to another.

This state of affairs continued well into the nineteenth century, by which time it was realized that there was a real need for insurance among the working classes, and that there were great opportunities for businesses run on sound and honourable principles. As a result, a number of companies, established for the conduct of industrial assurance business, were formed.

It is thought that the first company to be established solely for the purpose of transacting industrial assurance business was "The Industrial and General." It was established in 1849, but was transferred in 1855 to the "People's Provident." This latter company had but recently commenced operations. It was not successful, and, as a result of the passing of the Life Assurance Companies Act, 1870, was wound up in 1872.

In the few years preceding the passing of the 1870 Act, many companies of the same character were formed. Most of these, however, were controlled by men who utterly failed to realize the necessities of the business, and as a result came rapidly to an end. Some, however, weathered the storms and stand to-day as examples of all that is best in British insurance.

Many interesting stories could be told of the struggles of these companies to overcome their initial difficulties. It is on record

that directors had to pawn gold watches and other valuable personal belongings in order to provide the means with which to pay claims. Be that as it may, the claims were paid, and those companies which managed to survive went from strength to strength.

Field Staff Organization

It has been stressed earlier in this chapter that an essential feature of the business is that premiums are received by means of collectors. In the early days, many methods were adopted in an endeavour to dispense with collectors because those in control of the companies had an all-too-vivid recollection of the undesirable type of man employed by some of the old Burial Societies, and of the abuses to which the system lent itself. District offices were established at which policyowners might pay their premiums, but the efforts were not successful, and it was soon realised that if the premium payments were to be forthcoming, it was essential to employ collectors to collect them.

A striking example of the failure to conduct successfully the business of industrial life assurance without collectors is afforded by the Post Office Life Assurance Scheme. Powers were first conferred on the Post Office to enter into life assurance contracts through the Post Office Savings Bank as long ago as 1853, although it was not until 1865 that the first policies were issued. Premiums were not collected at the homes of the policyowners, but had to be paid at a Post Office. For years it was apparent that the scheme was doomed to failure. People simply would not take the trouble to go to the Post Office. Various means were tried in order to save the scheme. Facilities were given for the payment of premiums by transfer from the Savings Bank account of the member, and by the issue of a premium book in which the policyowner could affix a stamp of the value of his weekly premium each week. Neither of these alternatives met with any success, and, finally, it was decided to close the scheme for new entrants, the latest date for the issue of new contracts being 31st December, 1928. On this date the number of contracts in force was 9,956, assuring a sum of £494,536. On the same date the number of contracts in force in the industrial assurance companies and the collecting societies was 73,107,970, assuring a sum of £1,119,436,376. (The latest figures then available for collecting societies relate to the years 1924 and 1925.)

In the early days of the business, agents (using the term to mean those officials of the Office who actually collect the premiums) were invariably paid a commission on the amount collected, the rate varying in different Offices from 15 to 25 per

cent. In addition, fees were paid for the procuration of new business. Various methods of determining procuration fees were in operation, but a common method was to pay in cash an amount representing, say, ten times the amount of new weekly premiums introduced, or to allow the agent to retain the first twelve weeks' premiums, say, as they were collected. In the former case the agent was responsible for seeing that premiums were paid for a minimum number of weeks—say twelve. Under this system close supervision is necessary in order to counteract any tendency on the part of agents to encourage lapsing and re-entry.

In more recent times the methods of payment for the procuration of new business have undergone some change, and it is now more usual for Offices to pay on what is generally known as "increase." The amount of "increase" is ascertained by deducting from the total weekly premiums on new business and revivals the total weekly premiums on business going off. In considering the business going off the practice of Offices varies, but it is usual to reckon only business going off other than by claims by death or maturity, although frequently neither free policies nor surrenders are reckoned if they are in respect of policies on which premiums have been paid for a minimum period. The amount of payment on this "increase" also varies among the Offices, and might be anything from 15 to 24 times the weekly premium. This method of payment on "increase" rather than on new business has the great advantage that business secured tends to be more permanent in character, and agents endeavour to prevent lapses.

Another method of payment for new business, and one which is used by one or two Offices at the present time, is to allow the agent 50 per cent of the premiums collected during the first year—or such shorter period as may be decided upon—on all new policies. There is the same need for close supervision under this system as under the system of payment for new business noted above.

In the largest Office the agents are paid almost entirely by salary. They receive only a small direct remuneration for the procuration of new business, and increases in salary depend to a large extent on "increase." Payment by salary rather than by commission has been adopted by many of the larger Offices, although it is usual to find that "increase" is paid for independently of salary.

In the past, when the amount collected by each agent was small, it was not possible to pay by salary, because to have done so would have involved further capital outlay which could not be afforded. With the growth of the business, however, and its concentration in areas, it has been found possible to give

an agent a much larger debit (i.e. amount to collect) than formerly, and consequently to introduce the salary system in many of the Offices.

Concentration of business has led to a further development in organization. When the business was in its infancy, agents were allowed to canvass for new assurances wherever they chose (and in many Offices are still allowed to do so). This resulted, in course of time, in several agents of the same Office calling to collect premiums in the same street, and possibly, even, in the same house. It was apparent that if the whole of the business of an Office in a certain area could be given to one agent to collect, then the concentration of debit which would result would enable the agent to collect a much larger debit than formerly and with no greater effort. In this way also the costs of collection could be greatly reduced. This system of concentration is known as "blocking," and has been adopted with outstanding success by the largest Office. Clearly, the larger the Office the greater is the possibility of blocking its debits, but the system is being adopted at least partially by several of the larger Offices. Even if it is not possible to block the whole of the business of an Office, it may be possible to do so in the thickly-populated areas.

It used to be the practice in many of the Offices to allow what is known as "Book Interest." An agent was given the right to *nominate* his successor, but not, it should be noted, to *appoint* his successor. If the management of the Office did not approve the nominee, then the new appointment was not made. This right to nominate carried with it a saleable interest in the income derived by the agent from the debit. A debit of £10 of weekly premium on which a rate of commission of 25 per cent was paid could be sold for anything between £200 and £300.

The system of "book interest" has been discontinued by practically all the industrial assurance companies, but not by the collecting societies. The former argue that although the system may have been necessary in the past, when earnings were low and uncertain, and when this added incentive in the nature of a deferred payment was an inducement to the right type of man, conditions have changed. Furthermore, the system makes it difficult to introduce improvements in organization. It is said that there is a distinct danger, in those societies which have retained the system, of the agents obtaining too much control of the management. The collecting societies, on the other hand, strongly deny these statements, and contend that by giving an agent a financial interest in his debit they attract a better type of man, and that the system ensures that the agent will protect the interests of the policyowners, in whom, by virtue of his

saleable rights, he has a personal interest. They contend, moreover, that an agent with an interest in his book is careful to see that only business of the best type is obtained.

In a typical field staff organization the country is divided into a number of large areas or divisions each in charge of an official known variously as Divisional Manager, Inspector, or some similar designation. Under him are a number of districts each in charge of a District Manager (or, as he may be styled, District Superintendent). The agents work directly under the control of the District Manager, who is assisted by one or more Assistant District Managers (or Assistant Superintendents). Another familiar figure in the field staff organization is the Travelling Assistant, whose special duty it is to move from one district to another in a division, assisting the agents to secure new business.

Statutory Provisions as to Collectors, etc.

Prior to the passing of the 1923 Act, agents or other members of the field staff of an Office sometimes employed persons to canvass for new business, allowing them an arranged proportion of the procuration fees. These unofficial canvassers were without responsibility and frequently misled their clients, either wilfully or in ignorance, in their attempts to get business. The 1923 Act prohibited canvassing for new business by any person not being in the regular whole-time or part-time employment of the Office, and Offices and their employees were prohibited from employing such persons [Section 34 (1) and (2)]. It should be noted, however, that any person may collect premiums, and indeed it frequently happens that when an agent or collector is ill, he sends a member of his family to collect premiums on his behalf.

With the object of preventing collectors from obtaining undue control over the management of an Office, the 1923 Act provides that a collector shall not, in the case of a collecting society, be a member of the committee of management, or, in the case of a company, of the board of directors, or hold any other office in the society or company except that of superintending collectors within a specified area [Section 33 (1)]. It is also laid down that a collector or superintendent shall not be present at any meeting of the society or company [Section 33 (2)].

Trade Unions

A number of trade unions have, for many years, included a funeral benefit among their other benefits. No separate contribution is paid for this, the one weekly contribution covering all trade union purposes. Some of the unions collect the contributions weekly at the homes of the members, and in such cases it would

appear that the business of industrial assurance is carried on. It has been held in a Court of Summary Jurisdiction that the unions concerned are contravening the provisions of the 1923 Act, as they are not one of the bodies empowered by Section (1) of the Act to transact the business. The Trades Union Congress General Council have proposed to the Departmental Committee (see page 26) that a Bill should be introduced into the House of Commons exempting these unions from the provisions of the 1923 Act.

Some Features of the Business

Collection of Premiums. It has already been explained that an essential feature of industrial assurance business is that premiums are collected at the homes of the people, and that they are payable at intervals of less than two months.

The policyowner is given a receipt for the premiums he pays, in a premium receipt book. This book gives full particulars of the policy (or policies) to which it relates, and the premium payments are recorded on pages, of which the following headings may be taken as a specimen—

19..	Amount Paid s.	d.	Received by	Arrears Due £	s.	d.	19..	Amount Paid s.	d.	Received by	Arrears Due £	s.	d.
Jan. 2							July 3						
,, 9							,, 10						
,, 16							,, 17						
,, 23							,, 24						
etc.							etc.						

It will be seen that the policyowner is able to tell at a glance exactly how much is owing at any time.

The question arises as to whether the Offices are under an obligation, statutory or contractual, to collect the premiums. The English Industrial Assurance Commissioner in *O'Neill* v. *London General* (1924 E. 103) and the Northern Ireland Commissioner in *McDermott* v. *Nation Life and General* (1929 N.I. 23) have both held that they are. In the former case it was held that there was an obligation to collect because allowance is made for the costs of collection in the calculation of benefits. In the latter case, however, it was held that the obligation to collect is a statutory one. The definition of industrial assurance given in

Section 1 (2) of the 1923 Act is "the business of effecting assurances upon human life premiums in respect of which are received by means of collectors. Provided that such business shall not include: (*a*) assurances the premiums in respect of which are payable at intervals of two months or more . . ." By Section 45 (1) a collector is a person who by himself or deputy "makes house-to-house visits for the purpose of receiving premiums payable on policies of insurance on human life . . ." The industrial assurance policies issued by the Offices are always clearly identified as such, and it was held therefore that a statutory obligation to collect was imposed upon the Offices. There are, however, good reasons for thinking that this is not so, particularly as the obligation could not apply to those local societies which are precluded by their rules or constitution from collecting at greater distances than 10 miles from the registered office of the society, but which have not been exempted by the Commissioner from the provisions of the 1923 Act, under Section 10 of that Act. Members of these societies frequently take up residence outside the 10-mile limit. It seems reasonable to suppose that as the obligation to collect cannot be a statutory obligation on these local societies, neither can it be on the other Offices. It seems more probable that the obligation is merely one implied in the contract by usage in the business. The distinction is important, because where the obligation to collect is a statutory one, it is difficult to see how it can be varied in any way by a policy clause. In these circumstances the Office, if it wished to avoid all action for damages for breach of contract, would have to make arrangements for the collection of the premiums even should the policyowner go to reside in a district where the Office had no collector. If the obligation is one implied by reason of usage in the business, however, it would presumably be possible to overcome the difficulty by a suitable policy clause.

Premium the Unit. An outstanding difference between a prospectus for ordinary life assurance and one for industrial life assurance is that in the former the benefits are quoted with the sum assured as a basis, i.e. premiums increasing with the age are quoted for a given constant sum assured. This system is not possible in the case of small weekly premiums, because it is not practicable to make the small fractional increases in premium which would be required for each increase in the age. So far as weekly premium contracts are concerned, therefore, the sum assured is quoted for a given premium, and decreases with the age. For monthly premium contracts the practice varies, in some cases the sum assured being treated as the constant, and in others the premium.

Proposal: Basis of Contract. In industrial life assurance, as in ordinary life assurance, a person wishing to effect an assurance submits a proposal, which is subsequently incorporated, by reference, in the policy. The proposal constitutes the basis of the contract between the Office and the proposer.

The proposal form for an industrial policy is almost invariably filled in by the agent, the answers to the questions being supplied by the proposer who signs the proposal. Having regard to the industrial population among whom the business is transacted, this practice is almost inevitable. In fact, in the Report of the Departmental Committee appointed in 1919 under the Chairmanship of Lord Parmoor "to inquire into the business carried on by Industrial Assurance Companies and Collecting Societies," it was stated—

"Having regard to the nature of the business of industrial assurance, the Committee do not consider it to be practicable to prohibit agents from filling up proposals for assurance."

The practice has, however, an important bearing on the value of any warranties given, as will be seen when the effect of the provisions of Section 20 (4) of the Industrial Assurance Act, 1923, is considered in Chapter XIII.

Medical Examination Unusual. The practice of the individual Offices on the question of medical examination varies considerably, and will be dealt with more fully in Chapter IV. It is necessary here simply to point out that in any Office it is in exceptional cases only that a medical examination is required. The table of mortality used in the calculation of the sum assured is usually one of the English Life Tables, which Tables are based on census statistics and on the deaths shown in the Annual Returns of the Registrar-General. These represent the mortality experienced by the population as a whole. In these circumstances the need for medical examination largely disappears, although by suitable questions on the proposal form the Offices strive to protect themselves from granting assurances on physically impaired lives. As a further protection a report is required from the agent, and in the larger cases also from the assistant district manager and/or the district manager. For the same purpose provision is usually made in the policy conditions for the payment of one quarter or one half only of the full sum assured should a death claim arise before the policy has been in force for three calendar months or six calendar months respectively, the full sum assured being paid on all claims arising after the six months and on claims from accident whenever they occur.

Policies Free from Restrictions. Policies are issued free from restrictions as to future travel or residence abroad, a smaller

sum assured being granted only if, at the time of effecting the proposal, the proposer contemplates proceeding to an unhealthy climate. It will be understood, of course, that in respect of weekly premium policies, it is usually impracticable to charge an extra premium, and if any variation in the normal contract has to be made because of some extra risk, effect is usually given to it by reducing the sum assured.

Occupational risks, except for publicans and others employed in the licensed victualling trade, are usually covered without special terms being imposed. A policy condition is included restricting in some way the amount payable in the event of death due to war risks, and there is usually also a restriction on aviation.

Preponderance of Whole Life Contracts. Two distinctive features of industrial life assurance are the large proportion of whole life policies compared with endowment and endowment assurance policies, and the large number of policies which are effected by one person on the life of another.

Whole life policies represent about 75–80 per cent of the total number of policies in force, a preponderance which is due partly to the fact that the Offices, with their necessary rates of expense, have not been able to give really attractive terms for endowments and endowment assurances. With the continual decline in these expense rates, however, more attractive contracts are now being offered and accepted, and the percentage of whole life policies is continually decreasing. A more important reason for the preponderance, however, is one which is closely connected with the fact that many industrial life assurance contracts are effected by one person on the life of another—familiarly called "life of another" or "funeral expenses" policies. Offices are permitted by law to issue policies for insuring money to be paid for the funeral expenses of a parent, grandparent, child, grandchild, brother, or sister, and these are almost invariably issued as whole life policies.

The table given on page 12 is an analysis of all the *whole life* assurances at ages over 10 at entry effected with the principal Offices during two weeks in August, 1931, and shows the percentages of the various relationships of proposer to life assured. The analysis is based on the amount of weekly premiums and it will be observed that 54·7 per cent of the business in question was "funeral expenses" business, the remainder being own life, husband, or wife.

Lapses and Steps Taken to Prevent Lapsing. Industrial life assurance is sometimes criticized on the ground of the heavy wastage of business caused by early lapses. Unfortunately, policyowners do frequently allow their policies to lapse after a

Relationship of Proposer to Life Assured	Percentage of Total Premiums
Own Life, Husband, or Wife	45·3
Son or Daughter	41·8
Parent	5·8
Brother or Sister	4·5
Grandchild	2·5
Grandparent	0·1
Adopter and Pecuniary Interest	0·0
	100·0

short duration, but it must not be assumed, as is done in some quarters, that the Offices profit by these early lapses and are therefore not opposed to them—initial expenses and the cost of covering the risk are too great for that. The lapses are due to the non-payment of premiums by the policyowner, and every possible step, consistent with the good conduct of the business and the interests of other policyowners, is taken by the Offices to prevent them.

During times of industrial depression schemes are often devised in order to assist policyowners. One such scheme, which has been adopted by several Offices in recent years, has been to excuse the payment of arrears of premium under whole life policies, and to make an equitable deduction from the sum assured. The deduction is, of course, larger than the actual amount of the arrears, because it does not become effective until the date when the policy becomes a claim, and the Office is entitled to interest accrued in the meantime. Where the policy is an endowment assurance, no deduction is made from the sum assured, but the original maturity date of the policy is extended by the number of weeks for which the premiums were in arrear. One large Office, which had in operation in its industrial branch a scheme of reversionary bonuses, made the deduction under whole life policies a charge on the accrued bonuses, but even if at the date of claim the amount of the deduction exceeded those bonuses, no more was deducted than the amount of the bonuses, so that the full sum assured was paid as a minimum.

Sometimes surrender values have been allowed under policies not otherwise entitled, in order to provide the means to pay the arrears of premium due on other policies.

A valuable safeguard, too, is provided for policyowners by Section 23 of the Industrial Assurance Act, 1923. Briefly, this lays down that no forfeiture of an industrial policy shall be incurred until the policyowner has failed to comply with a notice

served upon him, stating the amount due and where it may be paid, and informing him that default in payment by him within 28 days will lead to the forfeiture of the benefits under the policy. The Office may serve this notice immediately a premium falls in arrear, but in practice notices are not served until premiums are in arrear for some weeks. For instance, in one Office it is customary to serve notices (*a*) on policies where less than 26 weeks' premiums have been paid, when premiums are due and unpaid for 8 weeks, and (*b*) on policies where 26 weeks' or more premiums have been paid, when premiums are due and unpaid for 12 weeks. Bearing in mind the 28 days allowed by Statute for the payment of these premiums due, it will be seen that the policy is not finally forfeited until premiums are owing for 12 weeks under (*a*) and for 16 weeks under (*b*). As a further assistance to policyowners in times of difficulty, however, it is not uncommon for Offices to extend these periods.

At one time it was usual for whole life contracts to provide for a small addition to the sum assured after the policy had been in force for 5 years, with a further small addition after it had been in force for 10 years. Each addition was approximately 2½ per cent of the sum assured. Sometimes the addition was made only after the policy had been in force for 10 years, in which case it was approximately 5 per cent of the sum assured. The practice was intended as an inducement to policyowners to maintain their polices in force, but it was not very effective.

On page 5, where the various methods of remunerating agents are described, reference is made to the system of payment for new business, depending not upon the amount of business actually introduced, but upon "increase," and it is stated that from the point of view of the Offices, a great advantage of the system is that it tends to produce business of a more permanent character, and encourages agents to do all in their power to prevent lapses.

It will be seen, therefore, that the Offices endeavour in many ways to prevent lapses. In spite of their efforts, however, lapses are heavy, and will, it is feared, remain a feature of the business, because—

(1) the persons with whom the business is transacted are frequently subject to spells of unemployment;

(2) the lapse rate in the early years of a policy's duration is largely a factor of the frequency of the mode of premium payments, and as in industrial assurance premiums are normally payable weekly, there are 52 occasions during the year on which the policyowner may decide to discontinue.

It frequently happens that even before the issue of the policy the proposer changes his mind, and decides that he will not continue with the proposed assurance. Such a case becomes what is known as "not taken up," or more simply as "N.T.U."

Free Paid-up Policies and Surrender Values. When a policyowner decides to discontinue, his interests are safeguarded both by Acts of Parliament and by the terms of his contract. It is not proposed here to go fully into the free paid-up policy and surrender value provisions of the Industrial Assurance Act, 1923, and of the Industrial Assurance and Friendly Societies Act, 1929. These provisions, together with the plans of automatic free paid-up policies, inaugurated by most of the large Offices in 1930, are dealt with fully in Chapters IX and X. It may be mentioned, however, that under these automatic plans, a policyowner on forfeiture, after failure to comply with the terms of a duly served forfeiture notice, or on discontinuance of premium payments with no intention of resuming, becomes entitled, provided he has paid premiums for at least two years (ignoring, in the case of infantile whole life policies, premiums paid in respect of completed years of assurance before age 10), to a free paid-up policy calculated on a basis at least as favourable as that laid down in the 1923 Act, or (in some Offices) in the case of policies to which the 1929 Act applies on a basis at least as favourable as laid down in that Act. In two or three of the Offices, moreover, the qualifying period is one year instead of two.

Expenses. It is often said that industrial life assurance is expensive. Measured by the ratio of expenses to premium income this may be true, but not when measured by the services given in return for those expenses. Any system of collection of small instalments at weekly or monthly intervals at the home of the payer is bound to be costly, but it can confidently be asserted that the industrial life assurance offices are economically managed. Moreover, the strictest vigilance is exercised over this aspect of the business, with the result that expense ratios are continually being reduced. The percentage of the premium income of the eleven largest Offices absorbed in expenses was 44·3 in 1920, and 30·1 in 1940—a reduction of 14·2 in 20 years. It is worthy of note, moreover, that these economies have been effected without reduction of staff other than by the normal changes due to retirement, resignation, etc. The largest economies have, in fact, been effected by the largest Office, but even if the figures for this Office are excluded the reduction shown is still substantial, the percentage having fallen from 46·7 to 33·5.

Profit-sharing Schemes. It has been the constant endeavour of the Offices so to improve the terms of their contracts that

the owner of an industrial life assurance policy may be placed in a position comparing not unfavourably with that of the owner of an ordinary life assurance policy. Reference has been made to the "world-wide" character of the policies, i.e. the freedom from restrictions as to future travel or residence abroad, to the comparative absence of special restrictions on account of occupation, to the period of free insurance which usually elapses before the Offices issue the statutory forfeiture notice, and to the particularly favourable automatic free paid-up policy conditions. The profit-sharing schemes voluntarily adopted by so many Offices for the benefit of their policyowners represent in most cases an improvement upon the terms of the original policy contracts.

Until fairly recently, industrial branch policies were invariably issued without any right of participation in profits, although for many years some of the strongest Offices had granted to industrial branch policyowners a share in the profits as a concession. In 1907, however, the shareholders of the largest Office agreed to a definite profit-sharing scheme under which the industrial policyowners and the members of the outside staff were each allotted a definite share of the industrial branch profits remaining after payment of a fixed minimum rate of dividend to the shareholders. In that year it was claimed that this Office had, to date, voluntarily divided among its industrial policyowners no less than £4,000,000. The industrial branch policies of the Office are now definitely issued as with profit contracts. In recent years the practice of dividing a portion of the industrial branch surplus among the industrial branch policyowners has grown considerably, and Chapter XIV is devoted to a consideration of this feature of the business.

Improved Scales of Benefit. In pursuance of their policy of improving the terms of their contracts whenever conditions have enabled them to do so, the Offices have increased considerably the sums assured for a given premium for all entry ages up to middle life, as the table on page 16 shows.

The average sums assured in 1921 and 1941 for Infantile Whole Life Policies, entry age 1 next birthday, weekly premium one penny, were £11 1s. and £15 1s. respectively.

Strengthening of Valuation Bases. The various improvements in policyowners' benefits, including free policy and surrender value provisions, profit-sharing schemes, and increased sums assured for new entrants (which have in some instances been made retrospective to existing contracts), are tangible and are therefore apparent to the policyowner. Equally important, however, is the fact that in recent years the bases of valuation have

AVERAGE SUMS ASSURED
of the Eleven Largest Offices, Granted for a Weekly Premium of Sixpence under Whole Life Policies issued in the Years 1921 and 1941 respectively.

Age Next Birthday at Entry	Sum Assured	
	1921	1941
	£ s.	£ s.
20	54 9	63 9
30	41 4	44 19
40	29 6	30 16
50	19 12	20 1
60	12 9	12 10
70	7 1	6 16

been greatly strengthened, so that in most cases they now compare favourably with those adopted for ordinary branch policies, regard being had to the different class of life involved. This means that there is not only added security for the due fulfilment of the policy contracts, but prospects of an extension of profit-sharing schemes are enhanced.

The Industrial Assurance Commissioner, on pages 92 and 93 of his Report for the year 1927, wrote—

The result of the valuations is to suggest that on the financial side industrial assurance has made a notable advance in recent years. Expenses, measured in proportion to the premiums collected, have diminished (though not in equal degree over the whole field), the bases of valuation have in many cases been definitely strengthened, thus increasing the security of the policyholders, the benefits offered to new entrants have been substantially increased, and among the proprietary companies there are conspicuous cases in which the policyholders have been admitted to fuller participation in the prosperity of the company. There is no reason to suppose that this progress will not be sustained in the future.

A study of subsequent events will show that the Commissioner's optimism has so far been justified, but the fact must not be overlooked that during the period following the 1914–18 war, all Life Offices were earning large surpluses owing to the high rates of interest which were being obtained on their invested funds and to improving mortality. It is now clear that the period of high interest rates has passed, and concessions to policyowners, improved benefits, and profit-sharing schemes will not be likely, therefore, to show in the future the same progress as has been witnessed in the recent past.

Moral Hazard

As in other branches of insurance the question of moral hazard is one of importance. The term is difficult to define precisely, but it may be described as the risk which is introduced into the contract by factors dependent upon the moral character of the person proposing the assurance, the life proposed, or the agent introducing the business. Its existence is due to the fact that the proposal is made by the person desiring the assurance, and that the Office is dependent largely, in assessing the risk, upon the information supplied by the proposer. As an example, an element of moral hazard would be suspected where a person seeks to effect assurances beyond his apparent means. He could have only one reason for doing so, namely, that he anticipated an early claim. Again, in "funeral expenses" proposals there is always a danger of this element if the person proposing the assurance, although within the permitted relationship to the life proposed, has in fact no expectation of incurring funeral expenses. An Office aware of the circumstances would probably decline to accept such a proposal, not only because of the moral hazard but also because the assurance may be argued not to come within the provisions of Section 3 of the 1923 Act.

This chapter is intended to be introductory only, and many of the points referred to will be dealt with fully in later chapters.

CHAPTER II

DEVELOPMENT OF LEGISLATION

GOVERNMENT supervision of industrial assurance under powers conferred by Acts of Parliament has advanced to the point of great thoroughness and complexity. This broad survey of the development of legislation affecting the business goes back to the time of King George III.

THE GAMBLING ACT, 1774

The first statutory regulation affecting life assurance in general was the Life Assurance Act, 1774, known as the Gambling Act, which was designed to prevent the practice then prevalent of insuring the lives of public men and others as a gamble. This Act, which is still in force, prohibits the issue of policies on lives in which the proposer has no interest, and declares that such policies shall be null and void. It further provides that, where there is a valid interest and a policy is issued, the policy must contain the name of the person or persons interested, or for whose use, or on whose account, the policy is so issued, and that no greater sum shall be recovered under the policy than the amount of the interest of the insured.

It has been established at common law that insurable interest exists as between a husband and wife. A husband may assure his wife's life for an unlimited amount, and a wife may similarly assure her husband's life.

What is thought by many authorities to be a statutory extension of the principle of insurable interest has been provided by legislation for the purpose of the conduct of industrial assurance business, and in this chapter will be found reference to certain Acts of Parliament which permit a person to assure the lives of certain specified relatives for funeral expenses. The question is discussed in Chapter XV whether policies issued for funeral expenses are policies of life assurance, involving a special kind of insurable interest, or whether they are policies of indemnity.

THE POLICIES OF ASSURANCE ACT, 1867

The Policies of Assurance Act, 1867, which is still in force, gave assignees of policies the right to sue in their own names, provided a written notice of the assignment had been served on the Company at its principal office. A Company is bound to give on every policy the address of its principal place of business at which the notice of assignment may be given, and must, on

request in writing of the person giving the notice, and payment of the statutory fee, not exceeding 5s., deliver an acknowledgment in writing of the receipt of such notice. The Act does not apply to collecting societies or to any other friendly societies.

The Life Assurance Companies Act, 1870

The success of the well-managed Life Offices in the middle of the last century had induced speculative promoters to float assurance companies, many of which were miserable failures or utter swindles. Following the crash of two companies known respectively as the European and the Albert, the Government was led to take action in the matter, and endeavoured by legislation, without interfering unduly with the business, effectually to prevent a repetition of such disasters in the future. The Life Assurance Companies Act, 1870, provided that—

(1) Every Life Office established after the passing of the Act should deposit with the Court of Chancery £20,000, which amount was to be returned to the Office as soon as the life assurance fund accumulated out of premiums amounted to £40,000.

(2) The life fund (though not the assets) should be separated from other funds where the Office transacted other branches of insurance as well as life.

(3) The Office should prepare and deposit with the Board of Trade each year revenue accounts and balance sheets in the form prescribed; and

(4) Periodical actuarial valuation returns should be made in prescribed form by established Offices at least once in ten years, and by new Offices at least once in five years.

The Act applied to any Life Office, whether ordinary or industrial, but not to offices registered as friendly societies.

The public proved eager to avail themselves of the improved state of affairs, and the business of industrial assurance developed rapidly.

The Friendly Societies Act, 1875

The Friendly Societies Act, 1875, prescribed limits to the sum which might be paid on the death of a child under age 10, and provided that the sum should be paid only to the parents or their personal representatives, and that special certificates of death, stating the amount of each insurance, should be granted. Although statutory limits and restrictions had been placed upon the assurance of children by friendly societies from the year 1846 onwards, the earlier Acts of Parliament did not relate to industrial assurance offices. The Friendly Societies Act, 1875, was the first Act

to be extended in its operation to cover industrial assurance offices as well as friendly societies.

The Collecting Societies and Industrial Assurance Companies Act, 1896

The effect of the Friendly Societies Act, 1896, and of the Collecting Societies and Industrial Assurance Companies Act, 1896, was to divide existing legislation into two parts, so that friendly societies on the one hand, and industrial assurance companies and the industrial assurance business of collecting societies on the other, were separately provided for.

The Assurance Companies Act, 1909

The Assurance Companies Act, 1909, is the most comprehensive Act dealing with the business of insurance which has been brought into operation. The Act is of importance to all Life Offices, but only two Sections, namely, 3 and 36, are of peculiar interest to industrial assurance offices.

Section 3 of this Act, which must be read in conjunction with Section 12 (1) of the Industrial Assurance Act, 1923, is as follows—

(1) In the case of an assurance company transacting other business besides that of assurance or transacting more than one class of assurance business, a separate account shall be kept of all receipts in respect of the assurance business or of each class of assurance business, and the receipts in respect of the assurance business, or, in the case of a company carrying on more than one class of assurance business, of each class of business, shall be carried to and form a separate assurance fund with an appropriate name: Provided that nothing in this section shall require the investments of any such fund to be kept separate from the investments of any other fund.

(2) A fund of any particular class shall be as absolutely the security of the policyholders of that class as though it belonged to a company carrying on no other business than assurance business of that class, and shall not be liable for any contracts of the company for which it would not have been liable had the business of the company been only that of assurance of that class, and shall not be applied, directly or indirectly, for any purposes other than those of the class of business to which the fund is applicable.

This Section states that separate funds shall be kept for each class of insurance, but it shall not be necessary to keep the investments of the funds separate. The effect of the Section has been the subject of much controversy.

Industrial assurance business was made a separate class of assurance business by Section 12 (1) of the Industrial Assurance Act, 1923. By Section 12 (3) (*b*) of this Act, it is provided that where any expenses of management, or interest or dividends from

investments, or sums on account of depreciation of securities, are apportioned between the industrial assurance business and any other business transacted by the Office, the auditor shall include in his report a special report as to the propriety or otherwise of the apportionment.

It would appear, therefore, that the industrial branch of an Office transacting other classes of business must be kept rigidly segregated from the other branches of the Office, and the vital question arises whether industrial assurance business can be carried on for the purpose of making a profit to be distributed other than amongst industrial branch policyowners. In order to obtain a declaration of the law on this point, the Wesleyan & General Assurance Society, in December, 1932, instituted an action against His Majesty's Attorney-General. The action arose as a result of a Direction by the Industrial Assurance Commissioner, by powers conferred on him by the Industrial Assurance Act, 1923, that the Society should return to the industrial branch profits which had been taken therefrom and applied for the benefit of its ordinary branch policyowners, who are the members of the Society. The Society obtained a declaration that it is entitled to distribute profits of the industrial branch, and that there was no obligation on the Society to comply with the Direction.

Section 36 of the Assurance Companies Act, 1909, relates solely to industrial assurance companies and collecting societies. Prior to the Act, Offices were issuing policies in "life of another" form purporting to cover funeral expenses which would be incurred on the death of the life assured. Sometimes policies for this purpose were issued in "own life" form, and the name of the person who really effected the policy and paid the premiums did not appear at all. In many cases no insurable interest existed, and the contracts were a contravention of the Gambling Act.

Section 36 (2) legalized existing policies which were for the *bona fide* purpose of defraying expenses in connection with the death or funeral of any person, if the amount assured was not unreasonable for the purpose, and such policies were not to be deemed void for want of insurable interest or because the name of the person interested, or for whose benefit or on whose account the policy was effected, did not appear therein. At the same time, subsection (1) provided that policies might be issued to insure money to be paid for the funeral expenses of a parent, grandparent, grandchild, brother, or sister. It will be observed that the relationship "child" was omitted. This was due entirely to a misunderstanding of the law as it then existed. The effect of the omission was that although collecting societies could issue

and pay under "funeral expenses" policies on the life of a child no matter when the death might occur, industrial assurance offices could issue such policies but could legally pay the sum assured only if the child died before attaining the age of ten. The anomaly was rectified by Section 3 of the Industrial Assurance Act, 1923.

The Courts (Emergency Powers) Act, 1914

Legislation had in the past relied on "freedom and publicity" rather than on State control, but with the passing of the Courts (Emergency Powers) Act, 1914, came active intervention by the Government for the protection of industrial policyowners.

The Act was passed just after the outbreak of the 1914–18 war, and in the belief that many policyowners would be unable, through the hardships of war, to pay premiums, it provided that an Office should not enforce the lapse of any policy to which the Act applied without the sanction of the Court. As a result, Offices were virtually compelled to give free insurance to tens of thousands of policyowners, many of whom were earning more money than they had ever earned before. The Act was brought to an end only by the passing of the Industrial Assurance Act, 1923, and even then valuable options were given to the policyowners to assist them to continue their policies in force.

Social Insurance

During the past twenty years social insurance has developed rapidly. In 1912 the great scheme of National Health Insurance was inaugurated, and its benefits are administered by means of Approved Societies. In many instances, industrial assurance offices formed Approved Societies under the control of the Ministry of Health, and the agents of the Offices combined with their ordinary duties the important work of collecting stamped cards and paying benefits at the homes of the members.

The socialistic tendency of the period was probably responsible for the formation of the Parmoor Committee in 1919 to inquire into and report on industrial assurance business, which directly affects nearly every person of the wage-earning classes.

The Industrial Assurance Act, 1923

Following the recommendations of the Parmoor Committee, the Industrial Assurance Act, 1923, was passed. Having regard to the fact that industrial assurance provides for the life assurance needs of the same great body of people for whom State schemes of social insurance were devised, it might have been anticipated that this Act would bring a far greater measure of State control

than there had been in the past, and this, in fact, proved to be the case.

The Commissioner and His Powers

The appointment of the Industrial Assurance Commissioner was a feature of outstanding importance, and his powers are very wide.

Industrial assurance companies are required to make returns relating to their industrial business to the Commissioner, besides sending returns to the Board of Trade (Section 12). The Commissioner may, if it appears to him that any account, return, or balance sheet is in any particular incomplete or incorrect, reject the document and give such directions as he thinks necessary for the variation thereof (Section 16).

If in the opinion of the Commissioner there is reasonable cause to believe that an offence has been or is likely to be committed, he has power to examine into and report on the affairs of the Office. Following an inspection, he may issue such directions and take such steps as he considers necessary to deal with the situation disclosed, and may in the case of a society award that the society be dissolved and its affairs wound up, and in the case of a company present a petition to the Court for a winding-up order (Section 17). In the case of *Hearts of Oak* v. *Attorney-General*, [1932] A.C. 392, it was held in the House of Lords that an inspector appointed by the Commissioner under the Section is not entitled to conduct an inspection in public or make public the information gained by him in the course of an inspection.

The Commissioner has power to reject valuation returns, and may direct the Office to make such alteration therein as may be necessary to secure compliance with the provisions of the Act as to valuations. The Office, however, has the right of appeal to the High Court. The Commissioner may require to be furnished with all or any of the particulars mentioned in the Second Schedule to the Act, and such explanations as he may consider necessary. If a valuation discloses a deficiency, the Commissioner has the same powers for winding-up as were referred to in the previous paragraph (Section 18).

Disputes may, subject to certain restrictions, be referred to the Commissioner either by an aggrieved person or by the Office [Section 32 (1)]. It may be remarked that there is no right of appeal.

Where a doubt arises as to the continued existence of the life assured, the Commissioner may award payment of the surrender value in termination of the contract [Section 32 (2)].

The Commissioner has stated powers in the case of amalgamations, transfer of business from one Office to another, and

conversions of societies into companies (Sections 12, 36, 37, and 38).

The Commissioner may, subject to the approval of the Treasury, make regulations for prescribing anything which under the Act has to be prescribed, and for imposing fees and generally for carrying the Act into effect (Section 43).

Although not exhaustive, a sufficient indication of the powers of the Commissioner has been given to make clear the wide extent of the control over the business which has been accorded to him. It is his duty to ensure that the Act is obeyed, but it is not always that the Offices consider the interpretation placed upon the various sections of the Act by him is the correct one. The most important instance of this is the Commissioner's interpretation of Section 25, which deals with substituted policies and which is such that a policyowner, who under the provisions of Section 24 is not entitled to any value for his policy upon forfeiture, may be able to obtain a liberal value merely by effecting a new policy and paying only one weekly premium thereon. The Offices hold that the intention of the Parmoor Committee cannot have been correctly interpreted. This matter will be found more fully discussed in Chapter X.

Statutory Control Under the 1923 Act

A general comment on certain features of the Act will indicate the degree of statutory control which has been imposed.

The Act makes compulsory on application the granting of free paid-up policies on all forfeited policies upon which premiums have been paid for a certain period, and a minimum basis of calculation is laid down (Section 24 and Fourth Schedule).

Items in the balance sheet representing expenses of organization or extension or the purchase of a business, or goodwill, must be liquidated within a period of seven years [Section 18 (*d*)].

Rules are laid down regulating "substituted" policies, and these have been the source of great difficulty in practice (Section 25).

Statutory provisions have to be embodied in proposal forms and policies. It has become practically impossible to dispute a claim after the policy has been two years in force, unless fraud can be proved (Sections 20 and 21).

Among the alterations to previous legislation the following may be mentioned—

For the purposes of Section 3 of the Assurance Companies Act, 1909, industrial assurance business was made a separate class. Furthermore, the deposit of £20,000 with the Paymaster-General required under Section 2 of the 1909 Act became necessary for

industrial as well as for ordinary business, and in this way a measure of additional security for industrial policyowners was secured (Section 12).

Policies may be issued to insure money to be paid for the funeral expenses of a parent, grandparent, child, grandchild, brother, or sister. The omission of "child" from Section 36 (1) of the Assurance Companies Act, 1909, to which reference has been made, was thus rectified. Funeral expenses policies are fully dealt with in Chapter XV.

As applied to industrial assurance companies, the maximum sum assured on the life of a child was raised to "six pounds for children under three years of age, ten pounds for children up to six years of age, and fifteen pounds for children up to ten years of age" (Section 4).

The Friendly Societies Act, 1924

Section 2 of this Act introduced for friendly societies, including collecting societies, the same limits for the maximum sum which may be assured on the life of a child as were imposed for industrial assurance companies by Section 4 of the Industrial Assurance Act, 1923, and it repeated the limits for the industrial assurance companies. The Act also laid down that all assurances on the life of a child by whomsoever they were effected, and whether with industrial assurance companies, friendly societies, or trade unions, should be aggregated in computing the total sum assured on the child's life.

The Industrial Assurance Act (Northern Ireland), 1924

The Act required a deposit of £20,000 by Offices carrying on industrial assurance business in Northern Ireland, and does not differ in any material respect from the Industrial Assurance Act, 1923, but it incorporates the effect of Section 2 of the Friendly Societies Act, 1924.

Provision was made for the appointment of an Industrial Assurance Commissioner for Northern Ireland with powers similar to those of the English Commissioner.

The Industrial Assurance and Friendly Societies Act, 1929

This Act was passed for the particular purpose of making it clear that the return of premiums paid under children's endowments and children's endowment assurances in the event of the death of the child, should not be taken into account in determining whether or not the limits of sum assured laid down by Section 2 (1) of the Friendly Societies Act, 1924, had been exceeded. In

addition it authorizes the issue of endowment and endowment assurance policies on the life of a parent, child, grandparent, grandchild, brother, or sister, provided the amount insured or paid on death does not exceed a reasonable amount for funeral expenses. Previous to the passing of the Act there had been some doubt whether "funeral expenses" policies could be issued in this form.

A feature of the Act is the generous free paid-up policy and surrender value provisions. Owners of policies covered by the Act, on which premiums have been paid for not less than one year, may claim within one year from the date of the last premium payment a free paid-up policy or a cash surrender value at their option. Also, the owner of any similar policy lapsed after 31st December, 1923, but before the commencement of the Act, could claim a free paid-up policy or cash surrender value within one year after the commencement of the Act. The basis laid down for the calculation of the free paid-up policy or surrender value was an exceedingly generous one, and was equalled in its liberality by few of the Ordinary Offices.

THE INDUSTRIAL ASSURANCE AND FRIENDLY SOCIETIES ACT (NORTHERN IRELAND), 1929

This Act received Royal Assent two months after the English Act of 1929 referred to above, from which it does not differ in any material respect.

DEPARTMENTAL COMMITTEE, 1931

In 1931, a Departmental Committee was appointed by the Treasury to "Examine and report on the law and practice relating to industrial assurance, and to assurances on the lives of children under ten years of age, including the question whether any amendment of the law or any addition to it is desirable." The Committee reported in 1933 and made many recommendations, which have not yet, however, been implemented by legislation.

THE INDUSTRIAL ASSURANCE AND FRIENDLY SOCIETIES (EMERGENCY PROTECTION FROM FORFEITURE) ACT, 1940

So far as it affects industrial assurance policies this Act is the second World War counterpart of the 1914–18 War's Courts (Emergency Powers) Act, 1914. It applies only to policies for sums assured not exceeding £50 (exclusive of bonus additions) which were in force immediately before the 1st September, 1939, and in respect of which not less than two years' premiums had been paid at the time of application for protection.

Before such a policy can be forfeited the Office must serve on the policyowner a Notice before Forfeiture containing, in addition to the matters required to be stated thereon under Section 23

of the 1923 Act, a statement in prescribed form to the effect that application may be made in writing to the Office within 28 days, and at a place specified in the notice, for protection from forfeiture on the ground that the default in payment of premiums was due to circumstances arising directly or indirectly out of the war.

If the policyowner, or someone acting on his behalf, makes application in accordance with the notice and the Office agrees to grant protection, it must either endorse the policy or serve a notice on the applicant to the effect that the policy is protected under the Act. If it refuses to grant protection it must serve a notice on the applicant informing him that an appeal from the refusal may be made within 28 days to the Industrial Assurance Commissioner.

So long as the protection lasts the policy may not be forfeited, but if at any time the Office is satisfied that the policyowner is no longer unable, by reason of circumstances arising directly or indirectly out of the war, to pay the premiums, it may serve a notice on the policyowner giving 28 days' notice of the termination of protection, subject to an appeal to the Commissioner within the 28 days. The policyowner may, of course, resume payment of premiums at any time, in which case the Office would serve a notice terminating the protection so far as future premiums were concerned.

The Act will eventually be brought to an end on a date to be provided by Order in Council, and the policyowner will not be entitled to protection in respect of any premiums falling due after that date. The period of three months following the date is known as the "period of grace."

If a claim arises under a protected policy at any time during protection, but before the expiration of the period of grace, the Office is entitled to deduct from the amount otherwise payable under the policy the whole of the premiums owing, together with compound interest thereon at the rate of 3 per cent per annum with half-yearly rests.

If a claim has not arisen before the end of the period of grace and the premiums owing have not been paid or tendered, then if the policy is a whole life one the amount assured will be reduced by a sum equal to the amount of the premiums owing multiplied by a given factor depending on the then age of the life assured. If the policy is an endowment or endowment assurance the date of maturity of the policy will be postponed by a period equal to that in respect of which the outstanding premiums were payable. In either case the policy will have to be endorsed or a notice to the same effect served on the policyowner.

CHAPTER III

DIFFERENT TYPES OF ASSURANCE

THE reader who takes the trouble to compare the industrial life assurance prospectus of 25 to 30 years ago of almost any of the larger Offices with the prospectus of the same Office to-day, will be impressed by the simplicity of the tables in the latter compared with those in the former. Some of the earlier types of contract were exceedingly complicated, and the policies were difficult to understand even by well-educated people. When they were issued to the classes for whom industrial assurance is intended, it is not surprising that they were sometimes a source of misunderstanding and trouble. Moreover, from the point of view of the Offices they were not without their difficulties even before the passing of the 1923 Act. Afterwards, however, the involved calculations required by the free paid-up policy and surrender value provisions of that Act greatly increased these difficulties, and when regard is had to all the circumstances there can be little wonder that the issue of these complicated policies has ceased. The simplification of contracts has been all for the good of the business.

The principal classes of assurance now being issued are given below. They will be dealt with in turn, but it must not be thought that each Office issues policies of each of the types named—

1. Adult Whole Life Assurance.
2. Infantile Whole Life Assurance.
3. Adult Endowment Assurance.
4. Infantile Endowment Assurance.
5. Pure Endowment.
6. Old Age Endowment.
7. Whole Life Assurance with Recurring Endowments.
8. Joint Whole Life Assurance.

Some of the above classes are issued both for weekly premiums and for monthly premiums (i.e. every four weeks, unless otherwise stated). Others are issued for weekly premiums only, and others for monthly premiums only.

1. ADULT WHOLE LIFE ASSURANCES

Adult Whole Life Assurance policies, as the name clearly indicates, assure a sum payable on the death of the life assured. Premiums are normally payable throughout life, but in some cases they cease on the attainment by the life assured of a given

age, providing they have been paid for a minimum number of years. For instance, in one Office premiums cease on the attainment of age 75, providing they have been paid for at least 25 years, but they do not, in any event, continue after the attainment of age 90. In another Office, premiums cease on the attainment of age 65, providing they have been paid for at least 20 years.

As a protection against adverse selection, it is usually stipulated that should a death claim arise before the policy has been three calendar months in force, only one-quarter of the full sum assured is payable, and should it occur after the policy has been three calendar months in force, but before it has been six calendar months in force, then only one-half of the full sum assured is payable. This applies also to other types of assurance.

The latest age at which sums assured for a given premium are quoted in the prospectuses varies from 75 next birthday to 86 next birthday. The range of entry ages under whole life policies is very much greater in industrial life assurance than in ordinary life assurance.

Approximately one-half of the policies effected under adult whole life policies are effected under Section 3 of the Industrial Assurance Act, 1923, to provide for the funeral expenses of a parent, grandparent, child, grandchild, brother, or sister. Although the policies effected as "own life," or husband proposing wife or vice versa, are not technically effected under Section 3 of the Act, there can be no doubt they are, in fact, very largely effected for the purpose of providing for the funeral expenses of the life assured, because the amounts assured under industrial policies are not as a rule large, and very often are not sufficient to leave a margin after the expenses of the funeral have been paid.

At the same time, even among the industrial classes, a whole life policy is the proper way to provide for one's dependants, because it is under this type of policy that the largest sum assured is secured for a given premium.

2. Infantile Whole Life Assurances

Infantile Whole Life Assurance policies may be effected by a parent on the life of a child to provide for the funeral expenses of the child (under Section 3 of the 1923 Act), or they may be effected by a parent on behalf of the child, where the child is under age 16 at the date of effecting the assurance [under Section 20 (1) of the 1923 Act].

Infantile whole life policies provide for a payment on the death of the life assured, subject normally to the payment of premiums

throughout life. As in the case of the adult policies, however, premiums cease in some Offices on the attainment of a certain age by the life assured. Some Offices, in fact, which do not make provision for the cessation of premiums at a given age in their adult policies, do so in their infantile policies.

Offices are restricted by statute in the amounts which they are allowed to insure or pay on the death of children (see Chapter XIII).

Whole life assurances on the lives of children are normally issued for weekly premiums of 1d. or 2d. (or monthly premiums of 4d. or 8d.). Whatever the premium, however, statutory restrictions must be observed, and it will almost invariably be found that the full statutory limits are given under policies with a weekly premium of 1d. If, therefore, an Office has in its prospectus two infantile whole life tables, one for weekly premiums of 1d. and the other for weekly premiums of 2d., then as the death benefits before age 10 are identical under each, the sum payable at death after age 10 under the latter table should be more than double that under the former. This is actually what happens in practice. For example, assuming a life aged 1 next birthday at entry, an Office, under its 1d. table, may grant the full statutory benefits before age 10 with a sum assured of £15 6s. on death after age 10, but under its 2d. table the sum assured on death after age 10 might be as much as £36 12s.

Occasionally the sum assured is so graded that there is a further increase (additional to that occurring on the attainment of age 10) on the attainment of age 15 or 21.

The ages at which policies under an infantile whole life table are issued are usually 1–10 next birthday inclusive, but in one or two Offices the range is from 1–15 inclusive. The ages in the adult table are a continuation of those in the infantile table.

3. Adult Endowment Assurances

Under Adult Endowment Assurance policies, a sum is payable on the survival of the life assured to the end of a stated term of years or at his previous death. Premiums are payable throughout the term of the assurance if the life lives so long.

Although the policies provide some measure of life assurance protection, their main purpose is to provide a sum of money on a predetermined date. Before the passing of the Industrial Assurance and Friendly Societies Act, 1929, some doubt had existed as to the legality of endowment assurance policies issued under the provisions of Section 3 of the Industrial Assurance Act, 1923 [or Section 36 (1) of the Assurance Companies Act,

1909] for the purpose of providing for the funeral expenses of any of the permitted relatives. Section 1 (1) of the 1929 Act, however, makes it quite clear that these policies may be issued. The free paid-up policy and surrender value provisions of the Act are so onerous to the Offices, however, that after the passing of the Act most of them ceased to issue endowment and endowment assurance policies for funeral expenses. It is to be observed that "own life" policies and policies effected by a husband on the life of his wife, or vice versa, do not come within the provisions of the Act, and are still freely issued.

On account of the relatively high expenses that were associated with industrial assurance, it has not always been easy to produce attractive endowment assurance contracts. By reductions in expenses, however, the position has been much improved, and the following table will give some indication of the benefits now being offered—

Age Next Birthday at Entry	15 Year Term		20 Year Term	
	Weekly Premium 6d.	Monthly Premium 2s.	Weekly Premium 6d.	Monthly Premium 2s.
	£ s.	£ s.	£ s.	£ s.
15	16 16	17 18	24 3	25 16
20	16 13	17 16	23 17	25 8
40	15 9	16 10	21 0	22 10

Some Offices confine the issue of endowment assurances to their monthly tables, under which they are better able to offer attractive terms, presumably because of the lower expenses involved when premiums are collected monthly.

Policies may be drafted to mature either on the expiration of a stated number of years (almost invariably one of the quinquennial terms, 10, 15, 20, . . . years) or on the attainment of a given age (or the policy anniversary preceding that age). Although the latter method was not uncommon some years ago, it has now been superseded almost entirely by the former. The terms most commonly quoted are the 15, 20, and 25 years, although under monthly tables the 10 and 30 year terms are sometimes added.

The range of entry ages for which the sums assured are quoted varies in different Offices, but as a rule the term of the policy added to the entry age does not exceed 70, e.g. under a 15 year term table the maximum entry age would be 55.

4. Infantile Endowment Assurances

Infantile Endowment Assurance policies are similar in their main characteristics to the corresponding adult policies, but the sums assured payable in the event of the death of the life assured before the attainment of age 10 are subject to the statutory limitations referred to under infantile whole life assurances. The policies are frequently effected by parents who wish to provide a sum on a given date to assist in a child's education or to enable him to enter some trade which might, for example, entail the purchase of tools or other equipment.

In view of the statutory limitations on the sums payable in the event of death before age 10, most of the offices provide under their infantile endowment assurance contracts for a refund of all premiums paid on death before this age. Under the provisions of the Industrial Assurance and Friendly Societies Act, 1929, no account is to be taken of any refunds of premium paid at death under endowment or endowment assurance policies in considering whether the statutory limits have been exceeded. By issuing policies in the form just described, therefore, Offices avoid the risk of over-insuring.

Those Offices which do provide a definite death benefit in the event of death under age 10 usually provide for the full statutory limits under a policy for 6d. weekly (or 2s. monthly).

It is the almost invariable rule to issue these policies to mature after a stated number of years, the favourite term being 15 years, although 20 and 25 years are sometimes quoted. Some Offices, however, quote benefits for integral terms from, say, 14 to 21 years. It is very seldom that one finds sums assured payable on the attainment of a given age (say 14, 16, or 21), but the practice is not entirely unknown.

5. Pure Endowments

Pure Endowments provide a sum on survival to the end of a selected term of years, or a return of all premiums paid in the event of death before the end of the term. Premiums are payable until the end of the term or previous death.

This type of contract was issued far more freely in former years than recently. There can be little justification for a policy which provides no death cover other than a return of premiums, and which on the maturity of the policy provides a sum which is less than the whole of the premiums paid, and it is the appreciation of this fact which has led many Offices to discontinue the issue of policies of this type. The relatively heavy expenses connected with the business render it difficult to produce, particularly for the short terms, a sum on maturity to show a profit

to the policyowner. The difficulty is that for short terms the compound interest earned on the premiums is not sufficient to cover the expenses. For long terms the position is easier, but long-term policies are not popular with the public.

Pure endowments appear to be favoured more by the collecting societies than by the industrial assurance companies, and, normally, lives are accepted at all ages except the very advanced ones. The sum payable on maturity is constant, no matter what the entry age may be.

6. Old Age Endowments

Old Age Endowments are issued only by a few of the Offices, and are limited to the lives of children aged 1–10 or 1–15 next birthday at entry. They are in effect a modified form of long-term endowment assurance under which a reduced sum assured is payable in the event of death during the endowment term. For example, in one Office, for a weekly premium of 2d., payable until the attainment of age 65 by an entrant aged 1 next birthday, the sum payable in the event of death before age 10 is the full statutory limit, and the sum payable on death after age 10 but before age 65 is £20. The contract terminates on the attainment of age 65, when a sum of £50 is payable. If preferred, this latter sum, instead of being taken in cash, may be applied to secure a free paid-up policy for an increased sum assured.

7. Whole Life Assurances with Recurring Endowments

Whole Life Assurances with Recurring Endowments are usually monthly premium policies and provide, in consideration of the regular payment of the monthly premium, a sum on the death of the life assured together with a cash payment at the end of each five years (or in certain instances, seven or even 10 years) survived by the life assured.

Although the policies are sometimes issued on infantile lives, it is more usual to restrict them to lives aged 11 (or even 16) next birthday at entry and upwards. The latest entry age at which the policies are issued varies in the different Offices issuing this type of assurance, but is never more than 60.

The contracts make an appeal to a certain type of proposer who wishes to see some tangible return for his money at frequent intervals. Those which give a cash payment every five years, when considered purely in the light of cash returns for premiums paid, are not, however, particularly attractive contracts. Analysed, they are seen to comprise two distinct portions: (*a*) the whole life portion, and (*b*) the recurring endowment portion.

Having regard to the heavier mortality experienced at the older ages, one would expect the premium charged for a given amount of recurring endowment to decrease as the age increases. Generally speaking, it will be found that in practice it does so, but the amount paid in premiums for the recurring benefit during each endowment period (where the period is five or seven years) is almost without exception in excess of the cash payment.

In view of the foregoing objection to this type of policy, most of the Offices exclude it from their prospectuses. At the same time it should be pointed out that at least one Office which gives a cash payment every 10 years does show a clear profit to the policyowner on the recurring endowment portion of his contract at most entry ages.

Another Office, in return for a monthly premium of 1s., gives, in addition to the death benefit, a cash payment of 16s. every three years, the latter being stated to be "for the purchase by the member of a National Savings Certificate." (When the price of Certificates was reduced to 15s. the payment of 16s. was maintained.) Under this particular policy, on the death of the life assured, or the lapse of the policy, such portion of the premium as has been paid by the policyowner towards a Savings Certificate during the triennium then current is returned in full.

8. Joint Whole Life Assurances

Joint Whole Life Assurances secure to the survivor a payment upon the first death of two lives. Normally, premiums are payable during the joint lifetime of the lives assured, but just as in the case of single life whole life assurances, some Offices limit the period of payment to a definite term. For example, in the Office which provides under its single life policies for the cessation of premiums on the attainment of age 65, providing they have been paid for at least 20 years, a similar provision is made in regard to its joint life policies, but both lives must have attained the age of 65.

Joint whole life assurances have never been very popular in industrial assurance, and one or two of the large Offices have discontinued their issue. Policies are effected almost exclusively by married couples in order to provide for the funeral expenses of the first life to fail. There is no reason in law why they should not be issued on other relationships within those permitted by Section 3 of the 1923 Act.

A practical problem arises as to the method of quoting the rates in the prospectus. It is impracticable to set out the sums assured in return for a given premium for every possible combination of ages, and various methods have been adopted to overcome the

difficulty. It is now the almost invariable practice to make use of Makeham's Law. This is a law of which much use is made in actuarial science. In many tables of mortality it is possible to replace two lives of different age by two lives of equal age where the equal ages lie somewhere between the two different ones. Applying this principle to joint whole life assurances, the benefits are quoted in the prospectus only for lives of equal age, and a schedule is given showing how to arrive at the equivalent equal ages corresponding to two unequal ages. For instance—

Where the Difference Between the Ages of the Two Lives is:	Deduct from the Age of the Older Life:
1 year	Nothing
2– 3 years	1 year
4– 5 ,,	2 years
6– 8 ,,	3 ,,
9–12 ,,	4 ,,
13–17 ,,	5 ,,
18–24 ,,	6 ,,
Over 24 ,,	7 ,,

The sum assured for a joint whole life policy on two lives aged 30 and 35 next birthday, for example, would be that for two lives each aged 33 next birthday.

It will be seen that by making use of equal ages the table of benefits for joint whole life assurances is no more cumbersome than that for single life assurances. A normal range of ages for which benefits would be quoted would be from equal ages 20–20 to equal ages 60–60.

TYPES OF ASSURANCE STILL IN FORCE BUT NOT NOW BEING ISSUED

In the general simplification of prospectuses to which reference was made at the beginning of this chapter, many types of assurance have practically disappeared so far as new contracts are concerned, but there still remain in force many policies which were effected under these obsolete tables. This chapter would not be complete without some reference to the more important of these various types.

9. Combined Whole Life and Endowment Assurances

Two or three distinct types of Combined Whole Life and Endowment Assurance were to be found. Under one type a sum assured, for example £100, was payable in the event of death

during a selected term of years. On survivance of the life assured to the end of the term a sum of £50 was payable, and thereafter the death benefit was reduced to £50. The premiums payable were at a certain figure during the term, and at a reduced figure for the remainder of life thereafter. Quite clearly this contract was a whole of life assurance for £50 combined with an endowment assurance for a similar amount. In fact the premium payable during the selected term was the sum of the appropriate whole life premium and the appropriate endowment assurance premium, and the premium payable after the endowment period had expired was the whole life premium.

Under another type of contract a certain sum assured was payable on death during a selected term of years or on survival of the life assured to the end of the term. Thereafter, the amount payable on death was a sum which bore no relation to the earlier death benefit. The premium remained constant throughout the entire duration of the policy—there was no reduction on the expiration of the selected term. A closer examination of the contract reveals that it was simply a combination of endowment assurance and deferred whole life assurance under which the premiums for the latter did not commence until the expiration of the selected term. The endowment assurance benefit was less (by approximately 10 per cent) than that obtainable under the normal endowment assurance contract for a similar premium, but the deferred whole life benefit was identical with that obtainable under the normal whole life contract for a similar premium at the age attained when the endowment assurance portion of the contract matured. It is apparent that the saving to the Office on the endowment assurance portion was intended to meet the risk of the health of the life assured being sub-normal when the deferred whole life assurance was entered upon.

Under yet another type (which is still being issued by one or two Offices) there is a combination of endowment assurance with deferred life assurance, but premium payments are limited to the endowment term. The benefits are a sum assured payable—

(*a*) in the event of the death of the life assured before the attainment of a stipulated age, or

(*b*) on the survival of the life assured to the stipulated age,

and a sum assured of one-half this amount payable on death after the attainment of the stipulated age.

In effect, this particular contract is a combination of a double endowment assurance, described below, and a whole life limited payments assurance, the premiums under the latter ceasing on the attainment of the stipulated age.

10. Children's Endowments—Premiums Ceasing on Death of Parent or Guardian

At least one Office still issues this type of policy under which two lives are involved—the parent or guardian and the child. The contract is for the payment of an amount on the expiration of a term of years. Should the parent or guardian die during the term no further premiums are payable, and the amount contracted for becomes payable at the end of the term, whether the child survives or not. Should the child die during the term, however, and predecease the parent or guardian, the contract is terminated by the return of a percentage of the premiums paid.

The advantage of this type of policy, where the father is the parent involved, over the ordinary infantile endowment assurance is that on the father's death the policy does not have to be discontinued because of an inability to pay premiums, and the money is still available on the maturity of the policy for the purpose for which it was originally intended, i.e. to make provision for apprenticeship, educational, or similar expenses.

The policies are not, however, popular, and their issue has almost entirely been discontinued.

11. Double Endowment Assurances

The normal Double Endowment Assurance is similar to an ordinary endowment assurance except that the amount payable on the survival of the life assured to the end of the specified term of years is double the amount payable in the event of earlier death. Premiums are payable until the termination of the contract by death or maturity. The appropriate premium for any stated term does not vary appreciably with the entry age, because a double endowment assurance is a combination of a temporary assurance for the death benefit (i.e. an assurance payable only in the event of the death of the life assured during the term), and a pure endowment for the amount payable at maturity, without any return of premiums in the event of death during the term. The premium required for the temporary assurance increases with an increase in the age, and that for the pure endowment decreases. The sum of the two remains fairly constant.

The issue of this type of Double Endowment Assurance has been discontinued in industrial assurance, but one Office issues a modified form of policy. In this case the payment in the event of death before one-half of the endowment term has been survived is one-half of the sum that would have been payable on the maturity of the policy. Up to this point the policy is similar to the normal double endowment assurance. In the event of the

death of the life assured after one-half of the endowment term has expired, however, the amount payable is the same proportion of the sum payable on the maturity of the policy as the complete number of years' premiums paid bears to the total number payable. For example, on a 20-year policy, if death occurs after the payment of 17 complete years' premiums, then the sum payable is $\frac{17}{20}$ths of the full amount that would have been payable on the maturity of the policy. The policy is issued under both weekly and monthly tables, and under both tables sums assured for a given premium are quoted. With the increasing death benefit it is not feasible to quote constant sums assured over wide ranges of entry ages for any given term, but the amounts do remain constant over quinquennial groups of ages.

12. Option Policies

In its most complicated form, this type of policy was difficult to understand, particularly by the average industrial assurance policyowner. The policies were whole life assurances with an option of conversion into endowment assurances, the premiums being paid monthly. For a given monthly premium, payable for a given period, a whole life assurance was granted. Up to this point the contract was simply a whole life assurance with limited payments. When the premiums were due to cease the policyowner had the option of continuing the payment of premiums for a further period, thereby converting the whole life assurance into an endowment assurance, maturing on the attainment of an age depending on the further period for which it was decided to continue the payment of premiums. An example may help to make the matter clear. An entrant at age 20 next birthday, by paying a monthly premium of 4s. for a period of 11 years 2 months, would secure a whole life assurance of £50. On the expiration of the premium-paying period he could exercise the option to convert his policy into an endowment assurance for the same sum assured, maturing at an age depending on the further period for which he decided to continue the payment of premiums. By deciding to continue them for—

Years	*Months*				*Age*		
1	3	Sum assured would become payable at			65	or earlier death	
2	2	,,	,,	,,	60	,,	,,
3	5	,,	,,	,,	55	,,	,,
5	2	,,	,,	,,	50	,,	,,
7	7	,,	,,	,,	45	,,	,,

Moreover, an option could be exercised at the end of successive periods, so that if, for example, after having paid the premiums for the first 11 years 2 months the policyowner decided to continue

them for a further 3 years 5 months and so convert the assurance into an endowment assurance maturing at age 55, he could, on the expiration of this further period, decide to continue premiums for a still further period of 4 years 2 months and convert the assurance into an endowment assurance maturing at age 45.

The policy was issued on infantile lives as well as on adult lives, but, naturally, the sum assured payable in the event of death before age 10 was kept within the statutory limits. Otherwise the infantile policies were exactly similar in principle to the adult ones.

Another type of option policy was one issued on infantile lives. The policy was essentially an endowment assurance, maturing at a certain age (say 21), and with premiums continuing throughout the term. On the attainment of the maturity age the option was given of receiving the sum assured in cash or of continuing the assurance as a whole life assurance or as an endowment assurance to mature on the attainment of one of several ages. The sum assured depended on the option exercised. If the policy was continued in force, premiums were payable until the final termination of the contract by payment of the sum assured, whenever that might be.

13. Whole Life with Guaranteed Bonus

Under this type of policy the sum assured increased annually by a constant percentage of (say) 1 per cent. Practice varied, however, and in one Office, for example, one quarter of the total premiums paid was added to the amount payable at death. Another Office transacted a certain amount of business under a table which combined a whole life assurance with what was called a bonus payable on the survivance of the life assured to the end of a selected term. The bonus was £25, and the death benefit under the whole life portion of the contract was £25. In the event of death occurring before the expiration of the selected term a bonus of 10s. was payable for each completed year of assurance. The weekly premiums payable were at a very much higher level before the bonus of £25 was payable than afterwards. In fact, the contract was really a combination of an ordinary whole life assurance with a pure endowment payable at the end of the specified term and a bonus of 10s. for each completed year of assurance payable in the event of death during the specified term. The reduced weekly premium payable after the payment of the £25 bonus was approximately the whole life premium for a sum assured of £25, according to the age of the life when the policy was effected, and the premium payable

during the specified term was this whole life premium increased by the weekly premium necessary to provide the £25 bonus and the annual bonuses of 10s.

14. War Loan and Victory Bond Policies

Offices have always shown a readiness to issue policies with a popular appeal, and the War Loan policies which were issued in large numbers (particularly by one Office) during and immediately following the 1914–18 War may be instanced. These policies were issued as short-term endowment assurances, the sum assured being payable, for example, in 5 per cent War Loan, 1929–1947, or in cash at the option of the policyowner. Where cash was chosen, then the amount paid was £95 (i.e. the issue price of the stock) for every £100 of War Loan due under the policy.

During the second World War one or two Offices issued Endowment Assurance 3 per cent Savings Bond policies.

Participation in Profits

In reading this chapter it should be borne in mind that while in the majority of Offices industrial branch policyowners have no right to a share in the profits of the industrial branch, in some they have a definite right, and in these the contracts are issued with participation in profits. Even in those Offices where the policyowners have no definite right to share, it is the practice to allocate some portion of the profits to the policyowners.

Types of Policy Not Found in Industrial Assurance

Among the types of assurance which are not met with in industrial assurance may be mentioned Term Assurances, Convertible Term Assurances, Contingent or Survivorship Assurances, Family Protection Policies, Children's Deferred Assurances, and Pure Endowments without return of premiums in the event of death during the endowment term, although this last type is embodied as an essential part of the industrial whole life assurances with recurring endowments.

CHAPTER IV

PROPOSALS AND REPORTS CONNECTED THEREWITH

PROPOSALS

In considering the proposal form, it must be remembered that the written proposal constitutes the basis of the contract, that the policy is issued on the understanding that all the questions contained in the proposal have been truly answered, and that no material fact relating to the age, health, or habits of the life proposed for assurance has been concealed from the Office. These comments are, however, subject to the provisions of Section 20 (4) of the Industrial Assurance Act, 1923 (see Chapter XIII).

The questions in the proposal form, therefore, are designed to elicit information which will enable the Office fairly to assess the risk. They should be simple, straightforward, and as brief as possible. These desiderata apply to any type of insurance proposal, but they become particularly important in industrial life assurance where, generally speaking, the contracts are with the less educated class of persons.

In ordinary life assurance the questions on the proposal are usually supplemented by questions which are asked of the life assured by the doctor at a medical examination. If there is to be no medical examination, then additional questions are asked on the proposal form. In industrial assurance, as a general rule, there is no medical examination, and it is necessary, therefore, to elicit all the desired information from the questions on the proposal form (Offices obtain reports from their own representatives, as detailed on page 51). Even so, the questions are reduced to a minimum in number, and the health questions are not of a very searching character. The justification for this is that the calculations to determine sums assured that can be granted for a given premium are based almost invariably on the mortality experienced by the population as a whole, and not on that experienced by lives which have been medically examined on entry into assurance.

It would be possible to design a special type of proposal for practically every different type of policy, but in the interests of simplicity it is desirable to reduce the number of forms to a minimum. The extent to which this is carried out varies in the different Offices, but it is essential, in considering the point, to bear in mind the provisions of Section 20 (1) of the 1923 Act. This section is of great importance and should be read carefully. Its object is to prevent the issue of policies purporting to be

"own life" policies in circumstances where, in reality, the policy is being effected by someone other than the life to be assured, and someone who will, presumably, pay the premiums. The danger exists when one person wishes to insure the life of another where neither close relationship nor insurable interest is present.

The importance of the section is such that it is an offence for an Office or an agent to issue a proposal form, or accept a proposal, which does not comply with the provisions of the section [Section 20 (2)].

Adult Policies ("Own Life" and "Life of Another")

One proposal form will suffice both for adult whole life and for adult endowment assurances, and while a number of Offices have separate forms for "Own Life" and "Life of Another" cases this is not essential. If one proposal form is used for both, however, it is essential that it should contain a declaration by the proposer that the policy is to be taken out by him and that the premiums are to be paid by him. In "Own Life" cases, of course, the proposer will be the person whose life is to be assured, and the requirements of Section 20 (1) of the 1923 Act will be met.

The first type of proposal to be considered, therefore, will be one for an adult policy (whether whole life or endowment assurance), and it will be assumed that one form is used, whether the case be "Own Life" or "Life of Another."

Usual Questions on a Proposal Form

After reciting the table, the term of years (for endowment assurances), the sum assured, and the weekly premium, the following questions would normally require to be answered—

1. *Name in full of life proposed to be assured.*
2. *Residence of life proposed.* (*Full postal address to be given.*)
3. *Occupation.*
4. *Age next birthday.....years on...../...../* 194....
5. *From what illnesses or injuries has the life proposed suffered? State nature, date, and duration.*
6. *Is the life proposed in a good state of health, of a sound constitution, and free from any physical infirmity?*
7. *Has any relative (or the husband or wife) of the life proposed, living or dead, suffered from consumption?*
8. *Is the life proposed engaged in the sale or manufacture of alcoholic liquor, or resident on licensed premises?*
9. *Is the life proposed already assured in this or any other Office? If so give full particulars.*
10. *Is the proposed assurance to take the place of any policy now or previously held by you in this Office? If so, give full particulars.*

11. *Has any policy held by you in any other Company or Society been discontinued in consequence of the proposed assurance, or is any such policy being discontinued? If so, give full particulars.*

During time of war, and for a few years thereafter, a further question may usefully be asked—

12. *Has the life proposed been medically examined for H.M. Forces? If so, state classification.*

If the proposed assurance were a "life of another" case, the following additional questions would be asked—

13. *Name in full of proposer.*
14. *Residence of proposer.* (*Full postal address to be given.*)
15. *Relationship of life proposed to proposer.*
16. *Whether the proposed assurance is to provide money to be paid for the funeral expenses of the person whose life is proposed to be assured.*

The proposal will conclude with a declaration, to be dated and signed by the proposer, that the answers to the questions are true in every respect, that no material information has been withheld, that the policy is to be taken out, and the premiums thereon paid by the proposer, and that he agrees that the answers to the questions are to form the basis of the contract. The exact nature of this declaration will be discussed at greater length later.

The purpose of the various questions will now be discussed.

Questions 1 and 2. These are purely for identification purposes. Some Offices require to know whether male or female, and some whether married or single.

Question 3. In industrial assurance, policies are not normally "loaded" in any way on account of occupation unless the life proposed is a publican or is engaged in some way in the licensed victualling trade. The practice of Offices in dealing with publicans varies within very wide limits. Some Offices charge no extra at all, others charge no extra for policies issued under weekly tables, but do charge for policies issued under monthly tables. One Office charges under its weekly whole life tables an extra weekly premium of 1d. for every complete £10 in the total sum assured in excess of certain limits depending on the age at entry, and another makes a reduction of 10 per cent in the sum assured in the event of death during the first 10 years, and so on.

Policies are usually restricted as regards naval, military, and aviation risks, and if the nature of the occupation indicated that the life proposed was about to proceed to an unhealthy climate an extra premium would be required or a debt placed upon the policy.

Question 4. A number of Offices do not require to know the

date of the birthday, but are satisfied with the age next birthday. The point is rather bound up with the practice of the Office when settling claims. If the age shown on the death certificate tallies with the age at entry (bearing in mind the duration of the policy at the date of claim) then it is not usual to require the production of a birth certificate. If an Office is prepared to allow some latitude in comparing the ages, then age next birthday at entry is all that is required. One Office at least asks for the place of birth. While this may be desirable in ordinary life assurance, where the Office is sometimes asked to obtain a birth certificate (at the cost of the proposer), and to assist in establishing the fact that a birth certificate submitted some time after the issue of the policy with a view to admission of age does, in fact, relate to the proposer, there seems little need for it in industrial assurance, unless it be as a possible aid to identification.

Questions 5 and 6. These questions are health questions, and are of great importance. The former of the two deals with the past. It is asked in slightly varying forms, an alternative being "What medical attention has the life proposed received during the last five years?" Question 6 deals with the present, and is of greater importance even than Question 5. The importance of these questions is such that one Office at least requires the answers to them to be in the handwriting of the proposer and to be initialed by him.

Question 7. If either or both of the parents had suffered or died from consumption, then, unless the life proposed had passed middle age, it is probable that the policy would be "loaded" in some way.

Question 8. The replies to Questions 3 and 2 should elicit the desired information, and, consequently, some Offices do not consider it necessary to include this question.

Question 9. One object of this question, so far as it relates to assurances in the same Office, is to ascertain the amount already on the life, as this has to be taken into account when deciding whether a medical examination shall be called for. (The question of medical limits is discussed on page 53). Also, if there are any further assurances on the life in the Office, then the proposals therefor and any available correspondence can be referred to. Information may come to light in this way which is not disclosed on the new proposal.

Where the proposed assurance is a "life of another" case, the Office requires to know the *total* amount of assurances held by the proposer on the life (including those in other Offices), as, if there is already sufficient for reasonable funeral expenses, it will not wish to issue more. Apart from legal considerations, the question of the moral hazard assumes some importance.

Question 10. This question is primarily inserted with the object of ascertaining whether the new policy when issued will be a "substituted" policy within the meaning of Section 25 of the Industrial Assurance Act, 1923 (see Chapter X). The question is asked in various forms, and one or two Offices endeavour to obtain the desired information by two distinct questions, e.g. (*a*) "Is the new policy to take the place of one now in force?" and (*b*) "Has the proposed been assured in this Office during any part of the past year? If so, state for each policy the No. and date of lapse."

The difficulties of complying with Section 25 of the 1923 Act are particularly great, and in order to overcome them most of the Offices have adopted a scheme of "Automatic Free Paid-up Policies." Where an Office has done so it is not concerned with the possibility of substitution, and the question loses much of its importance. One or two Offices which have a scheme in operation, however, do ask the question.

Question 11. This question is intended to reveal whether the proposed assurance is to constitute a transfer from another Office within the meaning of Section 26 of the 1923 Act (see Chapter XI). The Offices endeavour to avoid transfers, and serious notice is taken of any attempt by an agent or other representative to interfere with the business of a rival Office. However, if a transfer is inevitable, certain provisions of the Act have to be complied with, and it is important to know when a transfer takes place. One Office requires the reply to this question and to the previous one to be initialed by the person proposing the assurance.

Question 12. The significance of this question is obvious.

Questions 13 and 14. These questions, as in the case of Questions 1 and 2, are for identification purposes.

Question 15. This question is important in view of the relationships permitted by Section 3 of the 1923 Act and Section 1 (1) of the Industrial Assurance and Friendly Societies Act, 1929, under funeral expenses policies. It is not so important if the person proposing the assurance has an insurable interest in the life proposed, but in this event, under Section 20 (1) of the 1923 Act, the proposal must contain a statement of the nature of the interest. In industrial life assurance the question of insurable interest rarely arises, except in the case of a husband insuring the life of his wife, or vice versa. A husband has an insurable interest in the life of his wife, and the wife in the life of her husband. The mere relationship establishes the interest, and apart from stating this relationship it does not appear to be necessary to add anything to the proposal form. Apart altogether from the question of insurable interest, a wife has a statutory

right, under the Married Women's Property Act, 1882, to insure the life of her husband. It is unusual to find a question on a proposal form asking if the proposer has any insurable interest in the life proposed, and if he has, the nature thereof.

Question 16. Where the relationship of the life proposed to the proposer as given in reply to Question 15 is one of those in respect of which a policy may be issued for the purpose of providing for funeral expenses, then, unless there is an insurable interest, this question must be answered in the affirmative.

Questions Sometimes Asked on a Proposal Form

The foregoing questions are those most commonly met with, but others which are sometimes asked are as follows—

(*a*) *Is the life proposed of sober and temperate habits?*

It is doubtful whether this question is of much value, because where it is asked it is invariably answered in the affirmative. In fact, in one Office over a period of years the question had been answered in the negative only on two occasions. In these cases, further inquiry from the Head Office elicited the information that a mistake had been made, and that an affirmative reply should have been given! It may be argued, of course, that the existence of the question deters the agent from submitting proposals on intemperate lives, but the same end can be achieved, and probably more effectively, by incorporating a question in the agent's report form for which he is more directly responsible.

(*b*) *Has the life proposed ever been declined by this or any other Office? If so, give particulars.*

A question of this nature is of doubtful value in the case of an industrial proposal. The other questions on the proposal regarding health should be sufficient.

(*c*) *Are the parents of the life proposed (if alive) in good health? If dead, state cause of death.*

(*d*) *Is there any other information concerning the past or present state of health or habits of life of the life proposed with which the Company ought to be made acquainted?*

These last questions, although not often asked, may be productive of useful information.

The Declaration

The precise wording of the declaration to be signed by the proposer varies slightly in the different Offices, but the following is typical where the same proposal form is used for "own life" and "life of another" cases—

I hereby declare that all the answers given above were written by me, or on my behalf, and that they are true in every respect. I further declare that I have not withheld any circumstance as to the health, habits, or family history of the life proposed to be assured which should be made known to the Company, and I agree that this proposal and declaration shall be the basis of the contract between myself and the Company. I further declare that the policy is to be taken out, and the premiums thereon are to be paid, by me.

Where a separate proposal form is used in respect of funeral expenses policies, a declaration that the policy is to be taken out to provide money to be paid for the funeral expenses of the person whose life is proposed to be assured is sometimes embodied, but in these cases the final portion of the specimen declaration given, i.e. "that the policy is to be taken out . . ." is not necessary. Nor is it necessary where separate proposal forms are used for policies taken out on the life and on behalf of a child under the age of sixteen.

Other points which are sometimes incorporated in the declaration are—

(1) An agreement that if the answers to the questions are untrue in any respect, or if any material information has been withheld, then all sums which shall have been paid to the Office on account of the proposed assurance shall be forfeited, and the assurance shall be absolutely null and void, and

(2) An agreement that the proposed assurance shall not be binding on the Office until the policy has been delivered.

In the case of a collecting society there is an agreement that the Rules of the society shall form part of the contract.

By signing the declaration in the form outlined, the proposer is giving what is known as an "absolute warranty," and a breach thereof enables the Office to repudiate liability, notwithstanding that any claim arising may have no connection with the breach. Essential features of a warranty are—

(1) It must form part of the contract, and the facts warranted must either be recited in the policy or expressed in some other document (e.g. the proposal) which is incorporated by reference and made part of the policy.

(2) The fact warranted must be *literally* true.

(3) The facts warranted need not be material to the risk.

A warranty is entirely different from a representation. The latter is not part of the contract, nor are the facts recited in the policy or expressed in any other document which is incorporated by reference and made part of the policy. It is a statement made by one party to the other, either orally or in writing, as an inducement to make the contract. Representations are frequently

made by agents to prospective proposers when canvassing for business. For example, he may quite properly refer to the bonus scheme of his Office. To make the contract voidable a representation, as distinct from a warranty, must be—

(1) Substantially untrue.
(2) Material to the risk.
(3) An operative inducement to the contract.

In industrial assurance the Office is unable to take full advantage of the warranty which it obtains, because of the effect of Section 20 (4) of the 1923 Act (see Chapter XIII).

In one or two Offices the warranty taken in "life of another" cases is not an absolute warranty, but one of "best of knowledge and belief." In such circumstances the warranty is of the knowledge and belief only and not of the facts. The argument advanced in favour of this form of warranty is that it is unreasonable to expect a person proposing an assurance on the life of a relative to be in a position to give anything more. From the point of view of the Office, however, it has a right to some protection if, for example, the real state of health of the life proposed is not as given on the proposal, and it has a right to this protection whether the proposer knew the real state or not. The policy is issued on the understanding that the life is a good one at the time of the proposal. If it is proved later that it was not, then it is difficult to see any reason why the Office should be the loser.

The signing of the declaration is important. The answers to the questions on the proposal form are usually filled in by the agent on information supplied by the proposer. Although this system is not ideal, it is not uncommon in regard to ordinary life assurance, and one must have regard to the type of person with whom industrial business is normally transacted. It is to be feared that much less business would be done if it were insisted upon that the proposers themselves should fill in the replies. With the declaration at the foot of the proposal, however, the position is different, and after having had the replies read over to him, the proposer must sign personally, and his signature must be witnessed. Except in the case of a proposal for an "own life" assurance on a child under the age of 16, no one may sign on behalf of the proposer. In many Offices the agent has to certify that he saw the proposer sign. If the proposer is unable to write his own name he must make his mark and this should be duly attested. Finally, the proposal must be dated.

In ordinary life assurance, when a person is proposing an assurance on the life of another (insurable interest being present), many Offices obtain a declaration not only from the proposer but

also from the life proposed, as to the truth of the answers given. In industrial assurance this practice is not followed, although it is not unknown. It is interesting to note, however, that in some quarters the view is held that there should be a statutory obligation on the Offices to obtain the consent in writing to any proposed assurance from the person whose life is to be assured. It is difficult to see why this should be so, because almost without exception these "life of another" policies are effected for providing for expenses which the proposer expects to incur on the death of the life proposed. They are not less likely to be incurred simply because the latter has some superstitious objection to allowing his life to be insured, and it may be argued that he should not have it in his power to prevent the proposed assurance.

Infantile Policies

Infantile policies may either be "funeral expenses" policies, taken out by the parent, grandparent, brother, or sister of the child, or may be "own life" policies effected on behalf of the child. In either event the following questions which appear on the adult form are *not* necessary—

Question 3. Occupation.

Question 8. Is the life proposed engaged in the sale or manufacture of alcoholic liquor, or resident on licensed premises?

On the other hand, in view of the statutory limitations placed on the sums assured on children's lives, great importance attaches to the questions relating to existing assurances on the life, and the whole of these assurances must be disclosed (whether they are in the same or in different Offices). In some Offices, Question 9 is strengthened by the specific mention of assurances with trade unions, and this is important, as these assurances also have to be taken into account when considering whether the statutory limits have been exceeded [Section 2 (1) of Friendly Societies Act, 1924].

Whether the proposal is for a "funeral expenses" policy or for an "own life" policy, the declaration embodied in the adult form is suitable, but in the "own life" case, the life being under 16 years of age, the proposal must be signed on behalf of the child, and normally it is signed by the parent.

In the case of collecting societies (being registered friendly societies) a declaration is sometimes embodied in the "own life" cases on the following lines, and is intended to prevent any misunderstanding by the parent as to his real position—

I clearly understand that the life proposed becomes a member of the Society, as authorized by Section 36 of the Friendly Societies Act, 1896, and that on attaining age 16 years, as a member, may avail himself of all his rights and privileges under the Friendly Societies Acts.

In order to assist the reader to a full appreciation of this declaration, Section 36 of the Friendly Societies Act, 1896, is reproduced, as follows—

36.—(1) The rules of a registered society or branch may provide for the admission of a person under twenty-one years of age as a member.

(2) Any such member may, if he is over sixteen years of age by himself, and if he is under that age by his parent or guardian, execute all instruments and give all acquittances necessary to be executed or given under the rules, but shall not be a member of the committee, or a trustee, manager, or treasurer of the society or branch.

Joint Whole Life Policies

Usually, one proposal form only is used in respect of a Joint Whole Life policy. It is similar to that for a Single Life policy, but the questions asked relate to both lives, and the relationship to each other must be stated. The declaration must be signed by both lives.

Pure Endowments

In the case of pure endowments, the state of health is of little consequence, and questions designed to elicit any information on this point are omitted. Questions should be asked to ascertain whether the proposed new contract will involve a transfer within the meaning of Section 26 of the 1923 Act, or whether (in those Offices which have not adopted a plan of automatic free paid-up policies) there will be a substitution within the meaning of Section 25 of the Act. The only questions on the normal proposal form, for an adult policy, which need be asked on the proposal form for a pure endowment are Questions 1, 2, 4, 9, 10, and 11.

Under those Children's Endowments where premiums cease on the death of the parent or guardian (described on page 37), the usual health questions are asked to elicit information regarding the state of health of the parent or guardian.

Special Proposal Forms Used by Certain Offices

In one Office, owing to its particular method of dealing with the question of substitution, a special proposal form is used for those cases where the new policy is to be in substitution (within the meaning of Section 25) for some other policy.

A few Offices have special proposal forms where the amount to be insured exceeds a certain sum—usually £50. The special proposal form is of a more detailed character, and in one Office in particular is as searching as the normal ordinary branch proposal form.

It is interesting to note that one Office has restricted the questions asked on its proposal form to a bare minimum, by

confining them to questions designed to elicit whether the proposed new assurance will constitute a transfer from another Office, and what other assurances there are on the life in the Office itself. In addition, in infantile cases particulars of existing assurances on the life in other Offices are asked for. The questions regarding the state of health of the life proposed, normally found in the body of the proposal, are covered by incorporating in the declaration a statement to the effect that the health of the life proposed is good.

REPORT FORMS

The Report Forms met with in industrial assurance are—

1. Agent's Report Form.
2. Supervisory Official's Report Form (by District Manager or Assistant District Manager), and
3. Medical Report Form.

Friends' Reports are not normally used.

Agent's Report Form

Normally an agent's report is required in every case, except that in one or two Offices, if the circumstances are such that a supervisory official's report is required, the agent's form is dispensed with. The report may either be embodied in the proposal form itself, or it may be a separate document. It may take the form of a declaration or certificate to be signed by the agent, or it may consist of a number of questions to be answered by him. The object of the form is to afford some protection to the Office in its selection of lives. The agent is not likely to jeopardize his position by giving a report which he knows to be false.

The exact form of certificate required in different Offices varies, but the following may be taken as typical—

I certify that I saw the Life Proposed for Assurance on.....
I have made careful inquiries as to the past and present health and habits of the life. I believe that the policy is to be taken out by the proposer and that he intends to pay the premiums thereon. As a result of my observations and inquiries I recommend that the Life Proposed be.....[1]

For "life of another" cases, the agent may be required to certify that he is satisfied that the relationship is correctly stated.

Where the report form consists of a series of questions to be answered by the agent, the following may be taken as typical—

1. *When did you see the Life?.....*
2. *Is the Life Proposed known to you?.....*
   If so, for how long?.....

[1] In here would be inserted "accepted" or "rejected" as the case might require.

3. *Does the Life Proposed appear to be of temperate habits?*.....
4. *Do you believe the Life Proposed to be of sound constitution and in good health?*.....
5. *Do you consider the family history of the Life Proposed to be satisfactory in every respect?*.....

The report would conclude with a recommendation that the proposal be either accepted or rejected. Other questions may be asked by individual Offices, but the foregoing will indicate the general type. In "life of another" cases there would probably be a question confirming the relationship given in the proposal.

Supervisory Official's Report Form

This is not required in every case, but the circumstances in which it is required vary considerably in different Offices. A report is generally required only for proposals for sums assured in excess of a certain limit. The amount may vary with the age, decreasing as the age increases, and it may be larger in "own life," "husband on wife," and "wife on husband" cases than on more distant relations. For instance, in one Office the scale is—

£50	for ages	11–45
£45	,,	46–50
£40	,,	51–55
£35	,,	56–60
£30	,,	61–65
£25	,,	66–70
£20	,,	71–75

In another Office, for entry ages up to 65, the limit beyond which a report is required is £50 in "own life," "husband on wife," and "wife on husband" proposals, and £30 in the case of more distant relations.

In considering the limit it is frequently stipulated that sums assured under existing assurances on the life shall be taken into account, but excluding in one or two instances policies which have been in force for a minimum period of, say, ten years.

The supervisory officials' report form, as in the case of the agent's form, may be embodied in the proposal form, or it may be a separate document. Also it may consist of a declaration or certificate to be signed by the official, or of a number of questions to be answered by him. Where it takes the form of a declaration or certificate it is usually brief and somewhat on the following lines—

I hereby declare that I saw the above named life proposed on..... and (s)he then appeared to be in a good state of health and of sound constitution. I recommend acceptance of this proposal.

Where the report consists of a number of questions to be

answered by the official, the questions would be very similar to those given above for the Agent's Report Form.

MEDICAL REPORT FORM

As has been explained previously, in industrial assurance the cases where a medical examination is required are the exception rather than the rule. At the same time, where the sum proposed is comparatively large, the Offices desire the protection afforded by medical examination.

The practice of the Offices varies considerably as to the circumstances in which a medical examination is required. An instance would be to require examination in "own life," "husband on wife," and "wife on husband" cases where—

The sum assured exceeds	£100	for entrants	up to age	50	next birthday				
,,	,,	,,	£75	,,	,,	aged	51–60	,,	,,
,,	,,	,,	£50	,,	,,	,,	61–70	,,	,,
,,	,,	,,	£25	,,	,,	over age	70	,,	,,

Some Offices work to a rule under which the maximum sum assured in £'s which will be accepted without a medical examination is a given figure (say 120) less the age next birthday at entry, so that the maximum sum at age 40, for example, would be £80.

One Office will accept up to £200 without medical examination for entrants up to age 50.

In considering the limits, amounts already assured under earlier policies are taken into account, but excluding in some Offices those policies which have been in force for a minimum period of, say, 7 or 10 years.

Although some Offices apply the same limits for relationships other than husband and wife (and the Office which will accept up to £200 is among them), it is more usual to have much lower limits in order to afford the Office some protection against possible speculation.

Each Office has its own appointed medical examiners in various parts of the country. These men have experience in examining for life assurance, and know to what points they should pay special attention.

The medical report form used in connection with industrial life assurance is not generally of a very elaborate character, although some Offices do require a more detailed report for cases of £50 (or £100) and over.

In the case of an ordinary life office, the report form is divided into two portions, (*a*) consisting of questions put by the medical examiner to the life proposed, and (*b*) consisting of questions to be answered by the examiner himself. The first portion contains questions relative to previous illnesses suffered by the examinee,

FORM TO BE USED FOR INDUSTRIAL BRANCH ASSURANCES OF LESS THAN £50

THE POWERFUL ASSURANCE COMPANY, LIMITED

Chief Offices: POWERFUL BUILDINGS, QUEEN STREET, MANCHESTER

CHIEF OFFICE USE ONLY
A/c No.
Fee Posted
Fee Checked

MEDICAL EXAMINER'S REPORT

ON THE HEALTH OF..... (*Aged*.....*years.*)

District.....Agent..... Sum proposed for Assurance £.....

It is requested that the Medical Examiner will not proceed with the examination unless the proposal for assurance be in the first instance submitted to him, in order that he may have the full advantage of all the information contained in it; and as the report is a strictly confidential statement, the Examiner is desired to forward it with the proposal form direct to the Chief Office, and not to communicate its purport to the proposed or to any official of the Company.

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I acknowledge that I have this day submitted myself to Dr.....*for medical examination at*.....

[1]*Signature* (*in full*) .....

Date.....19..... *Address* .....

[1] The Medical Examiner should see the proposed sign this form before proceeding with the examination.

QUESTIONS	ANSWERS
1. Is proposed known to you? If so, how long?	
2. Is the appearance of proposed suggestive of good health and consistent with the age stated? . . . . . Is the build compatible with a normal expectation of life? . .	
3. Have you any reason to suspect present or past intemperance? .	
4. Is proposed the subject of hernia or varicose veins? If so, is adequate support worn?	

QUESTIONS	ANSWERS
5. Is there any physical deformity?	
6. Has proposed suffered from fits, rheumatic fever, gout, spitting of blood, pleurisy, bronchitis, asthma, vomiting of blood, syphilis or gonorrhoea or any other serious illness? . . . . If so, please state dates and duration . . . . . Is there any affection of or discharge from the ear . . .	
7. Are the heart and lungs normal in every respect? If not, please state clearly the condition present	
8. Is there any reason to suspect any disorder of the digestive system?	
9. Are there any signs or symptoms of kidney disease? . . .	
10. Are parents living? If not, please state causes of death and ages of deceased	
11. Is there any family history of tuberculosis or cancer? . . .	
12. What other special circumstances, if any, should be brought to the notice of the Company? . . . . . NOTE.—In female cases it should be stated whether the proposed is pregnant.	

I have this.....*day of*.....19.....*seen and examined the proposed, and am of opinion that he is in*[1].....*health, and that h constitution is* [2]..... *I therefore recommend the Directors to accept the proposal at*[3].....*class rates.*

Signature of Medical Examiner.....

Address.....

[1] State whether good, indifferent, or bad. [2] State whether sound or impaired. [3] Fill in First, Second, or Third.

1st Class—Unexceptionable. 2nd Class—Assurable, but only on special terms. 3rd Class—Unassurable.

his habits of life and whether temperate, and particulars of family history. This portion of the report form concludes with a declaration to be signed by the examinee of the truth of the answers given, and they become part of the contract. The report form used in connection with industrial life assurance is rarely divided in this way.

On the report form itself, the examiner is frequently requested not to proceed with the examination until the proposal has been forwarded to him. The object of this is that he may have full advantage of the information contained therein. Moreover, somewhere on the report form there is provision for the signature of the life to be examined, and the examiner is requested to see that this is signed in his presence. This is a safeguard designed to prevent any possibility of the real life proposed being impersonated by another life more healthy. The signature of the life examined is compared with that of the life proposed on the proposal form, but this can be done only in "own life" cases (unless, as happens in one or two Offices, the signature of the life proposed is obtained even on "life of another" proposal forms). One Office goes the length of requesting the examiner not to proceed with the examination unless the applicant is introduced to him by the district manager or inspector.

It will be understood that the questions asked on the medical report form vary in detail in the different Offices. The advice of the Chief Medical Officer of the Office is sought in framing the questions asked, and quite naturally they vary somewhat according to personal preferences. Generally speaking, however, they are all designed to elicit the same information.

In order to give the reader an idea of the type of question asked on the normal report form, the Form on pages 54 and 55 is reproduced as typical.

The Inset is reproduced as a typical example of the more detailed report form.

The questions asked on the report forms are largely self-explanatory, but it may be mentioned that the doctor's estimate of the age of the life proposed is useful and serves not only as a check on the information given on the proposal, but also as evidence of the identification of the examinee with the life proposed.

It is not the purpose of this work to consider in detail the effect on the assessment of the risk of the replies given in answer to the questions on the medical report form.

CHAPTER V

DRAFTING OF POLICIES—ADULT WHOLE LIFE POLICIES (LIFE OF ANOTHER)

THE policy is the document which evidences the contract and which sets out the terms and conditions thereof. Particular care must be taken in drafting it, because any ambiguity will be construed against the Office. The phraseology used should, however, be as simple as possible, so as to be intelligible to the policyowner.

A "policy on human life" is defined in Section 30 of the Assurance Companies Act, 1909, as "any instrument by which the payment of money is assured on death (except death by accident only) or the happening of any contingency dependent on human life, or any instrument evidencing a contract which is subject to payment of premiums for a term dependent on human life."

In accordance with Section 100 of the Stamp Act, 1891, a policy must be prepared, executed, and stamped within one month after the payment of the first premium. This does not, however, apply to the collecting societies, where policies do not have to be stamped and where the only obligation is to "deliver free of charge to every person, on his becoming a member of or insuring with the society, a printed policy signed by two of the committee of management and by the secretary, together with a copy of the rules of the society in force at the time" [see Section 9 (1) of the Industrial Assurance Act, 1923].

In some Offices the policy is under seal; in others it is under hand. So long as the form of its execution is in accordance with the constitution or regulations of the Office, either practice may be followed. Contracts under seal are specialty contracts, or deeds. Those under hand are simple contracts. The principal point of difference between the two, so far as it affects industrial life assurance policies, is that in the former any right of action arising out of the contract is barred by non-exercise after twelve years, whereas in the latter it is barred after six years.

In this connection it is of interest to mention that hearings before the Industrial Assurance Commissioner are statutory arbitrations and that in the case of *Charlesworth* v. *Refuge* (1938, but not reported) the Deputy Commissioner construed the Arbitration Act, 1934, as laying down that the statutes of limitations were not to apply to statutory arbitrations as from 1st January, 1935. The Limitation Act, 1939, however, which now takes the place of all previous statutes of limitation, definitely applies to statutory arbitrations.

3—(B.2424)

Formerly, the type of policy in general use was one in which such details as the names of the life proposed and of the person proposing the assurance, the relationship, the sum assured, and the premium were written into blank spaces left for the purpose in the body of the policy. In recent years, however, there has been a great extension in the use of what is commonly called the "schedule type" of policy. All the written particulars are included in one schedule (usually towards the foot of the policy), and are incorporated in the general body of the policy by reference only. This type of policy makes for simplicity both in policy-drafting and in policy-writing, and it is more easily understood by the policyowner. The former type of policy has practically disappeared from use, and it is proposed, therefore, to confine attention to the schedule type.

It will usually be found that the policy can be divided into three portions—

(*a*) The main portion, which sets out on the face of the policy the principal provisions of the policy;

(*b*) A recital of certain conditions of assurance; and

(*c*) A statement of the effect of certain provisions of the Industrial Assurance Act, 1923, as required by Section 21 (1) of that Act, and, in those policies affected, of certain provisions of the Industrial Assurance and Friendly Societies Act, 1929, as required by Section 3 (3) of that Act. Similar statements are required under the Northern Ireland Acts on policies issued to persons resident in Northern Ireland.

Portions (*b*) and (*c*) are printed on the back of the policy.

In addition, collecting societies frequently embody a copy of the rules in the policy itself, as provided for in Section 9 (1) of the Industrial Assurance Act, 1923, to which reference should be made. The incorporation of the rules in the policy may make it a rather forbidding document.

It will be understood that there is no standard form of policy. Each Office drafts its policies in its own way. Certain policy conditions appear in the main portion of the policy under (*a*), but are not reproduced under (*b*). There is naturally room for difference of opinion as to what should appear under (*a*) and what under (*b*), but a typical example will be considered, dealing in this chapter with

Adult Whole Life Policies (Life of Another)

All policies are headed with the name of the Office displayed in bold distinctive type, and, in compliance with the provisions of the Policies of Assurance Act, 1867 (which does not, however, apply to Collecting or other Friendly Societies),

the principal place or places of business at which notices of assignment may be given. Frequently the date of incorporation is also stated.

There appears near the top of the policy an indication that it is an Industrial Branch policy and also the type of assurance, e.g. Adult Whole Life (Life of Another). The policy number is usually to be found in this position, but it sometimes appears just above, or incorporated in, the Schedule.

Policies are issued as "World Wide," the person whose life is assured being free to travel or reside abroad, without the imposition of any extra premium or reduction in the sum assured. This fact is usually indicated on the face of the policy by printing in bold type the words "World Wide."

The following clauses are found in the typical policy—

(a) *Preamble.*
(b) *Operative Clause.*
(c) *Automatic Free Paid-up Policy Clause (in those Offices which have an automatic free paid-up policy plan).*
(d) *"Da Costa" or "Blood Relative" Clause.*
(e) *A Clause stating that the policy is subject to the terms and conditions endorsed thereon.*
(f) *Voiding Clause.*
(g) *Schedule.*
(h) *Attestation Clause.*

(*a*) **Preamble.** This sets forth the contracting parties and recites that a proposal and declaration having been submitted to the Office, it is agreed that they shall be the basis of the contract. It may be in the following form—

Whereas a proposal and declaration have been made by the person named in the Schedule hereto (hereinafter called the "Assured") to effect an assurance upon the life of the person named in the said Schedule who is stated in the proposal to be of the age specified in the said Schedule (hereinafter called "the person whose life is assured") with the .....ASSURANCE COMPANY, LIMITED (hereinafter called the "Company") on the terms hereinafter mentioned, and on the basis of the aforesaid proposal and declaration.

In some Offices "the assured" is referred to as "the proposer," and "the person whose life is assured" more simply as "the life assured."

In connection with the preamble it should be observed that the Life Assurance Act, 1774, among other provisions, makes it unlawful to issue any policy which does not give the name of the person or persons interested, or for whose use, benefit, or on whose account the policy is taken out.

(*b*) **Operative Clause.** This is a simple statement of the nature of the contract, thus—

Now these presents witness that the Assured having paid to the Company a first premium of the amount specified in the said Schedule, the Company hereby agree that in consideration of the said payment and provided that on or before every Monday after the date hereof during the life of the person whose life is assured there shall be paid to the Company or to their duly authorised Agent a weekly premium of the amount aforesaid, then the Company will, upon proof of death of the person whose life is assured and of the circumstances connected therewith being given to the reasonable satisfaction of the Directors of the Company pay the sum assured specified in the Schedule to the Assured or the executors, administrators, or permitted assigns of the Assured.

(*c*) **Automatic Free Paid-up Policy Clause.** It will be understood that this clause will be incorporated only in the policies of those Offices which have adopted an automatic free paid-up policy plan, designed to overcome the difficulties created by Section 25 of the 1923 Act. The wording of the clause varies in details in the different Offices, but in its essentials the clause is a uniform one and was drafted after discussion with the Industrial Assurance Commissioner. The following clause is typical—

After two years' premiums have been paid, if a forfeiture notice under Section 23 of the Industrial Assurance Act, 1923, is served in respect of this Policy and default is made in payment of any premium to which the forfeiture notice relates in accordance with and within the period specified in such notice, this Policy will on the expiration of the last mentioned period automatically become a free paid-up Policy in respect whereof no premiums will be payable and that free paid-up Policy will assure a reduced sum of an amount determined according to the Company's Tables for the time being in force for computing the amounts of free paid-up Policies in the Industrial Branch. Such reduced sum will not be less than the amount determined in accordance with the rules for ascertaining the amount of a free paid-up Policy contained in the Fourth Schedule to the Industrial Assurance Act, 1923. If after two years' premiums have been paid, payment of premiums is discontinued with the intention of making no further payment, then notwithstanding that no forfeiture notice is served, the Policy will automatically become a free paid-up Policy assuring such reduced sum as aforesaid provided that until service of a forfeiture notice and default made in the payment of any premium thereunder the Policy may subject to the provisions and conditions of the same be restored to full benefit by payment of the premiums due thereon. The free paid-up Policy will assure the reduced sum only and will not participate in any bonus distribution made after such conversion.

When this Policy has become a free paid-up Policy, the Company will forthwith take all practicable steps to ensure endorsement on the Policy of a memorandum that it has become a free paid-up Policy for the reduced sum and stating the amount of that sum.

In the above clause the qualifying period is two years. In two or three Offices it is as low as one year. Again, instead of endorsing the policy to show the free paid-up policy amount, one or two Offices issue a Certificate stating the amount, and the clause is modified accordingly.

(*d*) **"Da Costa" or "Blood Relative" Clause.** In industrial assurance the sums assured are usually small, and policies are not infrequently transferred from one party to another without proper assignment or other legal formality. For example, a policyowner finds himself unable to continue the payment of premiums and hands over his policy to a relative who is willing to do so. Or again, on the death of a policyowner, and in the absence of a will, the policy may be taken over by a relative, who acquires no strictly legal rights. On the claim arising the Office desires to pay the person who has paid the premiums, and in equity it is usually justified in doing so. The "da Costa" clause, or, as it is sometimes called, the "Blood Relative" clause, is inserted in the policies of most Offices, therefore, to enable the Office to take a proper discharge from the person whom it pays. It is helpful, also, as a means of settling claims expeditiously in those cases where there is neither a will nor letters of administration and where the next of kin are numerous or hard to find. The clause takes its name from *Da Costa* v. *Prudential* (1919), 120 *L.T.* 353, in which case the Company had paid, under the clause, the son of the deceased life assured although the policy was "own life" in form. The son had paid the premiums throughout the duration of the policy. Apart altogether from the clause, it was held, on appeal, that the policy enured for the son's own benefit by virtue of Section 36 (2) of the Assurance Companies Act, 1909.

A typical clause is as follows—

The production by the Company of a receipt for any benefit payable under this Policy signed by any person being either an executor or administrator of the Assured or the husband or wife or a relation by blood or connection by marriage of the Assured shall be a good discharge to the Company and shall be final and conclusive evidence to all intents and purposes that the benefit therein expressed to have been received has been duly paid to and received by the person or persons lawfully and rightfully entitled to the same and that all claims and demands whatsoever against the Company in respect of such benefit have been fully and truly satisfied and discharged.

(*e*) **Clause Stating that the Policy is Subject to the Terms and Conditions Endorsed Thereon.** This clause is perfectly straightforward, and the following may be taken as a specimen—

This Policy is subject to the conditions and statutory provisions endorsed hereon, and to the Articles of Association from time to time of the Company.

In the case of a collecting society the policy would be subject to the Rules of the Society.

One Office which is incorporated by special Act of Parliament provides that the policy shall be subject to that Act.

(*f*) **Voiding Clause.** The scope of this clause varies widely in the different Offices, and it is probably true to say that no two Offices are alike. The following may be taken as a specimen clause—

This Policy is granted upon the express condition that the same shall become absolutely void and all premiums paid thereon shall be forfeited to and retained by the Company if it be discovered that the person whose life is assured was at the date of the issue of this Policy afflicted with any bodily or mental disease infirmity or ailment or should any untrue statement have been made or any material information have been suppressed or concealed or if any of the conditions hereon endorsed have not been or shall not be in all respects performed or observed or if without the express permission of the Directors being endorsed hereon this Policy shall be in any way assigned, sold or mortgaged or otherwise parted with.

The effectiveness of the clause to void the policy on the ground of any untrue statement or non-disclosure of material information in the proposal form is greatly diminished by the provisions of Section 20 (4) of the Industrial Assurance Act, 1923.

Other circumstances which are sometimes mentioned in the "Voiding Clause" as voiding the policy are—

(1) *Default in payment of premiums in compliance with a Statutory Forfeiture Notice unless the Policy has become a free paid-up Policy.* (See Chapter VIII.)

(2) *Failure to conform to or abide by the Memorandum and Articles of Association or the Rules of a Society.*

(3) *The engagement by the person whose life is assured in Aviation (except as a passenger in a civil capacity), or in Active War Service (whether Naval or Military) without the previous consent of the Office endorsed on the Policy.*

(4) *The death of the person whose life is assured by the hands of Justice or by his own hand or act whether felonious or otherwise.*

Many of the points which are mentioned as voiding the policy would do so even if they were not specifically mentioned, and the purpose of including them in the "Voiding Clause" can only be to bring the fact home to the policyowner.

With reference to (4) above, it may be thought that even though nothing is inserted in the policy, a policyowner would be incompetent, on grounds of public policy, to claim if the person whose life is assured met his death at the hands of justice. This is no doubt true where the person claiming is doing so under or through the deceased life assured. But where he is claiming under an independent title there is no such objection. This was decided

by the Industrial Assurance Commissioner in the case of *Ann Jane Podmore* v. *Tunstall and District.* (See Chapter XIII.)

If it is desired to incorporate a provision voiding the policy in the event of suicide, then particular care must be used in the choice of words. Where the suicide is felonious then the policy would be void even in the absence of a special clause, unless, presumably, the claimant claimed in his own right and not through the deceased. Where, on the other hand, the suicide is during temporary insanity, then, unless the voiding clause incorporates some such words as "felonious or otherwise," or "whether sane or insane," there is some doubt whether it would be effective; particularly is this so where the words used are "by his own act," because in law there are three ingredients to an act, namely, an exertion of the will, an accompanying state of consciousness, and a manifestation of the will. These can hardly be present during insanity.

An interesting discussion of the leading cases (British and American) is given by the Industrial Assurance Commissioner in his award in *Arthur Ives* v. *Liverpool Victoria* (1929 E. 14).

Where a suicide clause is incorporated in an industrial policy the period of its operation is usually unlimited. In at least one Office, however, it is limited to a period of two years after the date of the assurance.

(*g*) **Schedule.** Usually, apart from the Policy Number and Date, the whole of the written particulars are entered in the

SCHEDULE

Name and Address of the Assured	Name and Address of the Person whose Life is Assured	Weekly Premium: .....shillings.....pence
	Stated in the proposal to be aged .....next birthday Relationship to Assured.....	Sum Assured payable at Death of Person whose Life is Assured: (*a*) During the first three calendar months of assurance — One-quarter of Full Benefit (*b*) During the second three calendar months of assurance — One-half of Full Benefit (*c*) After six calendar months: £ : : (herein called Full Benefit) Full Benefit shall be payable in the event of the death by accident of the person whose life is Assured whenever it may occur.

Schedule, and the nature of these particulars makes it of the utmost importance that they should be accurate. An error in the sum assured or the premium to the disadvantage of the Office, for example, might easily have awkward consequences for the Office. On the other hand, no Office would take advantage of an error which was in its own favour.

We show on page 63 a specimen schedule which might be used.

In this schedule the addresses of assured and life assured are both given. Although this is usual, it is not universal.

Where the industrial life policyowners are definitely entitled to a share in the industrial branch profits, the schedule, when stating the sum assured, would probably add the following (or something to the same effect)—

Together with such further sum as may be allotted and become payable by way of bonus under the Bonus Distribution Scheme from time to time in force in the Industrial Branch of the Company.

The exact form of wording for the periods during which the reduced benefits are payable varies in different Offices. The intention is always, however, that the periods should relate to certain durations of assurance, and not to premium payments, and care is needed in the particular choice of words. If, for example, quarter benefit is to be payable in the event of death during the first three calendar months of assurance (as in the above Schedule), then it would not be sufficient to say that quarter benefit should be payable "in the event of death before the payment of thirteen weeks' premiums." Premiums may easily be paid well in advance, and even should they be paid only as they fall due, the thirteenth weekly premium would be paid at the commencement of the thirteenth week, and if death occurred during that week then the assurance would not have been in force for three calendar months.

(*h*) **Attestation Clause.** This clause is very similar in all Offices, and its exact form depends principally on whether the document is under seal or under hand. In the former case the following is typical—

In witness whereof the Company have caused their Common Seal to be hereto affixed this.....day of..... one thousand nine hundred and forty.....

Where the document is under hand, the clause may read—

In witness whereof we the undersigned, being two of the Directors of the Company, have hereunto set our hands this.....day of..... one thousand nine hundred and forty.....

The persons who should sign the policy are probably determined

by the Articles of Association or other instrument constituting the Company or by its by-laws or regulations. Usually, the signatures of two Directors are necessary.

In the case of a collecting society, in accordance with Section 9 (1) of the Industrial Assurance Act, 1923, the policy must be signed by two of the members of the committee of management and by the secretary.

Dating of Policy

Finally, the policy is dated, and here again the practice varies in different Offices. In some Offices a premium is collected when the proposal is obtained, and premiums are payable from that date. In these Offices it is customary to date the policy to correspond to the date of the proposal. If the first premium is not payable until delivery of the policy, then the policy is usually dated for the first Monday (or other day of the week on which premiums are payable according to the practice of the Office) following the dispatch of the policy from the Head Office. The dating of policies must take account of the conditions as to premium payments set out in the Operative Clause.

Other Clauses

The whole life policies of some Offices are limited payment policies, the payment of premiums ceasing on the attainment of a given age by the life assured, providing premiums have then been paid for a minimum period. A special clause is needed to cover this provision, and it may read as follows—

After premiums shall have been paid until the attainment by the person whose life is assured of age.....and for a total period of not less than.....years the Policy if in force will become a free paid-up Policy for the full sum assured and bonuses declared to the date when premiums cease to be payable.

Before the second World War most of the Offices included among their Conditions of Assurance one dealing with aviation and war risks. It was usually to the effect that the life assured was not to become engaged in active naval or military operations or in aviation without the previous consent in writing of the Office, who might require as consideration for such consent that the premium be increased or the sum assured reduced. If the consent was not obtained, then, in the event of the death of the life assured arising from any of the causes named, the liability of the Office was limited to an amount equal to the total amount of the premiums paid under the policy.

Since the War, different conditions have prevailed, and it is now more usual to find a clause appearing on the face of the

policy. There is not complete unanimity among the Offices, but the restriction most commonly in operation is that expressed in the following typical clause—

Should the death of the person whose life is assured arise whether directly or indirectly as a result of (1) *engaging in aviation except in time of peace as a fare-paying passenger in any regular public air line or* (2) *war or hostilities of any kind the liability under this Policy shall be limited to the amount of the premiums paid plus the smaller of the following amounts—*

(a) *One pound for each one penny of the weekly premium payable under this Policy or*

(b) *one half of the sum which but for this proviso and excluding the accident benefit would have been payable at death under this Policy*

provided that the total sum so payable shall not in any event be more than the sum which but for this proviso would be payable under this Policy.

The reference to the accident benefit under (*b*) is due to the fact that normally full benefit is payable in the event of death from accident during the first six months of a policy's existence, instead of the reduced benefits which are otherwise payable. [In some Offices 10s. is substituted for £1 in (*a*) in the case of endowment assurances.]

Another war clause restricts the liability to—

(a) *One quarter of the sum assured plus an amount equal to twice the total amount of premiums paid if death occurs while the life assured is a civilian in the United Kingdom,* or

(b) *An amount equal to twice the premiums paid if death occurs while the life assured is serving with H.M. Forces or with the Mercantile Marine or is a civilian abroad.*

Some Offices incorporate a clause limiting the claims to certain funds, e.g.—

This Policy is issued out of the Industrial Branch of the Company and the Industrial Branch Fund together with the Capital Stock of the Company shall alone be answerable for any claims hereunder.

Where this clause is used it is customary to incorporate it in clause (*e*) above. The provisions of the Assurance Companies Act, 1909, and of the Industrial Assurance Act, 1923, would prevent the use of other departmental funds, such as the ordinary branch fund for the payment of industrial branch claims, but it would appear that the use of the above clause would prevent the use of any special contingency fund for this purpose.

A number of Offices allow revival within a period of one year following the date when the premium last paid became due, upon

payment of the whole of the arrears of premium, and production of satisfactory evidence that the state of health of the life assured is still good. Sometimes the clause providing for this is embodied with the other provisions on the face of the policy, but it is more usual to find it among the conditions of assurance on the back.

Somewhere on the face of the policy there will usually be found in distinctive type a request to the policyowner to examine his policy carefully and to return it to the Head Office if found incorrect in any particular.

CONDITIONS OF ASSURANCE

Conditions of assurance are found on the back of the policy. In drafting them, regard must be had to the provisions incorporated on the face of the policy, but in the specimen policy under consideration the following conditions of assurance would be suitable and sufficient—

1. *The person whose life is assured shall not become engaged in aviation by way of trade or business or otherwise, without the previous consent in writing of the Directors, who may require as consideration for such consent that the premium be increased or the sum assured reduced. If such consent be not obtained, then in the event of the death of the person whose life is assured, directly or indirectly due to such person having been engaged as aforesaid, the Company shall be liable to pay an amount equivalent to the total amount of the premiums paid under this Policy only, but not in any case exceeding the sum which but for this condition would have been payable at death under this Policy.*

This condition would not be required if aviation risks were included in the War Clause as on page 66. In the form in which it is drafted, the above clause does not void the policy if the life assured should engage in aviation without the previous consent in writing of the Directors. The restriction on the amount payable is expressed to be on death "directly or indirectly due to such person having been engaged as aforesaid." It is not sufficient to express it as on death "while engaged as aforesaid," because the death might occur long after the person whose life is assured has ceased to be "engaged as aforesaid," and yet be attributable to the particular cause.

2. *The person whose life is assured shall not be or become engaged or employed in the trade of intoxicating liquors (either ashore or afloat) without the previous consent in writing of the Directors, who may require as consideration for such consent that the premium be increased or the sum assured reduced.*

It will be observed that there is no provision such as appeared in the previous clause entitling the claimant to a reduced sum

where the death of the person whose life is assured occurs directly or indirectly as a result of being engaged in the particularly hazardous occupation. If there were this provision there would frequently be difficulty in deciding whether the death had arisen as described.

3. *The receipt books in which are entered the periodical payments of premiums shall at all times upon the application of the Agent or other authorised officer of the Company be produced to him.*

4. *On the death of the person whose life is assured, all documents relating to the title to the Policy must be produced for inspection at the Company's Head Office, and on the Company paying the moneys due, the Policy and all documents of title not dealing with any other property and (unless the Policy has become a free paid-up Policy or the book relates also to other Policies) the book containing the receipt for the last premium due must be delivered up to the Company. The Company reserve the right to require proof of age of the person whose life is assured.*

Proof of death and information as to the circumstances connected therewith are not referred to, as they are covered by the Operative Clause.

It is not customary in industrial life assurance to require the production of a birth certificate, although this clause enables the Office to demand it if desired. This question is discussed fully in Chapter XIII.

It will be observed that if the premium receipt book relates also to other policies, then the Office is not given authority to retain it, and after the settlement of the claim it must be returned to the policyowner. This is necessary on account of the provisions of Section 22 of the 1923 Act, since so far as these other policies are concerned it cannot be said that "the policy has been terminated by reason of satisfaction of all claims capable of arising thereunder." In view of the provisions of the section, some Offices do not require in practice production of the premium receipt book for inspection at the Head Office, if it does relate also to other policies, but they are satisfied with a copy of the book, showing the date up to which premiums have been paid, and certified by the district manager or other official.

If the policy has become a free paid-up policy, then obviously production of the book is unnecessary.

5. *Notwithstanding that this Policy shall have become a free paid-up Policy it may be revived and restored to full benefit at any time during one year from the date when the premium last paid was due, upon proof being given to the satisfaction of the Directors of the good health of the person whose life is assured and payment of all arrears of premiums, such arrears being calculated on the footing that it has not become a free paid-up Policy. If so revived this Policy shall be deemed never to have become a free paid-up Policy.*

As there is sometimes misunderstanding on the point, it should be mentioned that although most Offices allow revival on the terms stated, the practice is not universal, and there is no statutory requirement.

6. *No alteration in or addition to the terms of the contract can be recognised unless effected by endorsement upon the Policy signed at the Company's Head Office.*

This clause is of the utmost importance, and for this reason is frequently printed in heavy type. It is incorporated in the policies of all Offices, and is a warning to the policyowner not to allow interference with his policy by unauthorized persons. Some Offices go to the extreme length of stipulating that alterations not made and signed at the Head Office shall void the policy.

The foregoing conditions are those most commonly found, but others sometimes met with are—

(a) *All questions contained in the proposal forming the basis of this assurance shall have been truly answered, and no material fact touching the age, health, habits, or occupation of the person whose life is assured shall have been suppressed or concealed from the knowledge of the Company.*

In the Preamble of the policy the proposal and declaration are made the basis of the contract. Also, the Voiding Clause suggested is sufficiently wide to cover this condition. It is not therefore really necessary to include it among the Conditions of Assurance, but its inclusion may help to impress the position upon the policyowner.

(b) *If through mistake the age of the person whose life is assured shall have been understated in the Proposal the Sum Assured shall be reduced to such sum as would have been assured (according to the Tables in the Company's Prospectus in force at the date of this Policy) for the Premiums actually paid if such age had been correctly stated.*

Section 20 (4) of the Industrial Assurance Act, 1923, includes, *inter alia*, a similar provision, and as a statement of the effect of this section has to be printed on all industrial assurance policies, it is doubtful whether any useful purpose is served by including the above among the Conditions of Assurance. It may be that by doing so it is brought more prominently to the policyowner's notice.

(c) *This Assurance shall not be void by reason of the non-payment of any weekly premiums during the first six calendar months from the date of this Policy if the premium payments which are in arrear do not exceed eight weeks' premiums, nor after the first six calendar months if the premium payments which are in arrear do not exceed thirteen weeks' premiums.*

Although very few Offices actually include this clause in their policies, almost all grant its benefits (or similar ones) to their policyowners. By the terms of Section 23 of the 1923 Act, notice has to be given of the amount of any premiums due and 28 days allowed in which to pay the arrears before a policy can be forfeited. It follows, therefore, that an Office wishing to limit the advantages of the clause to a minimum must serve notice immediately four weeks' premiums are in arrear if the policy is not more than six months in force, or immediately nine weeks' premiums are in arrear if it is more than six months in force. It should be noted that the periods of eight weeks and thirteen weeks respectively mentioned in the specimen clause are not universal.

(d) *Any forfeiture incurred by breach of any of the foregoing conditions may be waived by the Directors if and on such terms as they shall think fit.*

This, again, is merely a statement of the position whether the clause appears or not, but it brings it to the knowledge of the policyowner.

One Office prints on the back of its policies its scale of free paid-up policies.

Statements on Policies Required by Section 21 of the Industrial Assurance Act, 1923

The Section applies to all policies issued after the commencement of the Act, i.e. after 1st January, 1924, and failure to comply can have very serious consequences for the Office, as not only is it liable to be prosecuted and suffer heavy penalties on that account, but the person by whom premiums have usually been paid has an absolute claim for a refund of the whole of the premiums paid [Sub-section (2)].

The requirements of the Section are met if, instead of setting out the provisions in full, a statement is given which, in the opinion of the Commissioner, sufficiently sets forth the effect of those provisions. This is clearly to be preferred, because if it is couched in simple language the statement is much more likely to be understood by the average policyowner than would be the phraseology of the Sections themselves. All the industrial assurance companies have therefore adopted this method of compliance with the Act. One or two of the collecting societies have not done so, because in accordance with Section 8 (3) of the Act, certain Sections of the Act have to be set out in their Rules. These Sections include those which have to be set out in policies, so that if the Rules are printed on the policy compliance is made with the requirements of the Act—always provided, that Sections

23, 24, and 41 are in distinctive type. The following is the statement which has been approved by the Commissioner—

STATEMENT OF THE EFFECT OF CERTAIN PROVISIONS OF THE INDUSTRIAL ASSURANCE ACT, 1923

SECTION 20 (4).—PROVISIONS AS TO PROPOSALS FOR POLICIES

Where the proposal is filled in wholly or partly by a person employed by a Society or Company, the policy cannot be disputed on the ground that the proposal contains a misstatement except where a fraudulent misstatement which is material has been made by the proposer. Where, however, the age of the person whose life is to be assured has been wrongly stated, the Society or Company may adjust the terms of the policy to agree with the correct age at entry; and where a misstatement in regard to the health of the person whose life is to be assured has been made, the policy may be disputed on this ground within two years of the issue of the policy.

SECTION 22.—RETURN OF POLICIES AND PREMIUM RECEIPT BOOKS AFTER INSPECTION

A Society or Company, or any person employed by it, taking possession of a policy, premium receipt book or other document issued in connection with a policy must give a receipt for it, and must return it within twenty-one days unless all claims under the policy have been settled; but if, for the purpose of taking proceedings against a collector, it is necessary to keep any such document for a longer time, a certified copy must be given to the owner

SECTION 23.—NOTICE BEFORE FORFEITURE

Before a policy can be forfeited for non-payment of premiums, notice must be given to the person assured setting out the amount due and the place where payment must be made, and allowing twenty-eight days in which to pay the arrears

SECTION 25.—SUBSTITUTION OF POLICIES

Where the owner of a policy accepts a new policy in substitution for an existing policy, he shall be entitled to a surrender value or free paid-up policy of the amount provided under the Act, unless the value of the new policy is not less than such surrender value. On any such substitution of policies, particulars of the rights of the owner and a certified statement of the value of the old and new policies must be furnished to the owner by the Society or Company when the new policy and premium receipt book are delivered.

Where the value of the substituted policy is not less than the surrender value of the old policy, it will be reckoned as having been issued at the date of the issue of the old policy for the purpose of determining whether the owner is entitled to a free paid-up policy or surrender value under Section 24, which is set out below.

SECTION 26.—TRANSFERS FROM ONE SOCIETY OR COMPANY TO ANOTHER

A member of or person assured with a Society or Company shall not be transferred from the Society or Company with which he is assured so as to become a member of or be assured with another Society or Company without his written consent, or, in the case of an infant, the written consent of his parent or guardian. Such consent must be in the form prescribed by Regulation under the Act and must be accompanied by a statement

showing the terms of the old and new policies, and the rights conferred by each. If any consideration has been or is to be paid for the transfer, this must be shown, and the name of the person receiving it given. The Society or Company to which the member or person assured is transferred must furnish him with a copy of the aforesaid consent and statement; and must, within seven days of such consent being given, furnish the other Society or Company with a notice containing full particulars of the name and address of the member or person transferred and the number of his policy, together with the consent and statement aforesaid. As from the date of such notice the liability of the original Society or Company under its policy shall cease, and no notice of forfeiture need be given.

SECTION 27.—PAYMENT OF CLAIMS

Where a claim arising under a policy is paid, no deductions shall be made on account of any arrears of premiums due under any other policy.

SECTION 32.—DISPUTES

In all disputes between a Society or Company and a member or person who is assured or has been assured by it, or a person who claims to be interested in a policy issued by it, such member or person may, notwithstanding anything in the rules of the Society or Company, apply to the County Court, or, if the amount does not exceed £25, and at least fourteen days' notice of the application has been given to the Society or Company, to a Court of Summary Jurisdiction for the place where such member or person resides, for a settlement of the dispute.

Alternatively such a dispute may be referred by the consent of both parties to the Industrial Assurance Commissioner; or if the amount involved does not exceed £50, and the legality of the policy is not questioned, and fraud or misrepresentation is not alleged, the matter may be referred to the Commissioner by either party to the dispute without the consent of the other.

Where a doubt arises as to the continued existence of a person whose life is assured, the Commissioner may award that the surrender value be paid to the owner of the policy, and such award shall be a discharge for all claims by or against the Society or Company in connection with the policy.

Any application to the Commissioner should be made by letter addressed to him at 17 North Audley Street, London, W.1.

SECTION 41.—NOTICES

Where any notice is required by the Act to be served upon any person, the notice must be in writing or in print and must be either delivered or sent by post to him, but a notice of default may be left at his last known place of abode instead of being delivered or sent by post.

The following Section does not apply in the case of a forfeiture occurring before the 7th June, 1928—

SECTION 24.—PROVISIONS AS TO FORFEITED POLICIES

Where notice of the forfeiture of a policy by reason of default in the payment of any premium thereunder has been served on the owner of the policy, he shall be entitled, at his option, either to the rights conferred on him by the rules of the Society or the conditions of the policy, or, on making applications within one year of the date of such notice to the Society or Company issuing the policy, to a free paid-up policy of an amount not less than that provided by the Act. In the latter case at least five years' premiums must have been paid, or where the policy is for a

term of less than twenty-five years, three years' premiums; and in the case of whole life policies or those for a term of at least fifty years, the person whose life is assured must have attained the age of fifteen years at the time of default.

If the owner of the policy permanently resides outside England, Scotland, Wales, the Isle of Man, and the Channel Islands, or submits satisfactory proof that he intends so to reside, or if the person whose life is assured has disappeared and his existence is in doubt, a cash surrender value can be obtained in place of the free paid-up policy.

The Society or Company must supply information as to the amount of the free paid-up policy or surrender value on application by the owner of the policy to the Head Office.

Approved by the Industrial Assurance Commissioner.

The provisions of the Industrial Assurance Act (Northern Ireland), 1924, which apply to business transacted in that territory, are practically identical with those of the 1923 Act. In order to comply with that Act, therefore, a statement to the following effect has been approved by the Industrial Assurance Commissioner for Northern Ireland—

NORTHERN IRELAND

THE EFFECT OF THE CORRESPONDING PROVISIONS OF THE INDUSTRIAL ASSURANCE ACT (NORTHERN IRELAND), 1924, is in all material respects the same as the above with the addition of the words "Northern Ireland" before "England" in the first sentence of the second paragraph of "Section 24—Provisions as to forfeited Policies."

Any application to the Industrial Assurance Commissioner for Northern Ireland should be made by letter addressed to him at the Ministry of Commerce, 13 Wellington Place, Belfast.

Approved by the Industrial Assurance Commissioner for Northern Ireland.

It may be mentioned here that on every endowment or endowment assurance policy coming within the scope of the Industrial Assurance and Friendly Societies Act, 1929, and issued after 30th September, 1929, there must be set out the provisions of Section 3 and of the Schedule to the Act, or a statement of the effect of the Section and Schedule to be approved by the Commissioner. This will be dealt with fully in the next chapter, as will also be the statement required by Section 21 (1) of the 1923 Act, to be set out on all infantile policies.

CHAPTER VI

DRAFTING OF POLICIES (*contd.*)—OTHER CLASSES

IN the preceding chapter, the straightforward Adult Whole Life Policy effected by one person on the life of another for funeral expenses was considered. In this chapter the more important of the other types of assurance referred to in Chapter III are examined. Reference may first be made, however, to the changes that are necessary in the "life of another" policy in order to make it suitable for "own life" contracts. These changes are principally confined to the preamble, which would read as follows—

Whereas a proposal and declaration have been made by the person named in the Schedule hereto (hereinafter called the "Assured"), who is stated in the proposal to be of the age specified in the said Schedule, to effect an assurance upon his own life with the..... ASSURANCE COMPANY, LIMITED (hereinafter called "the Company"), on the terms hereinafter mentioned, and on the basis of the aforesaid proposal and declaration

The changes called for in the remainder of the policy are so apparent that there is no need to refer to them specifically. It may be mentioned, however, that one or two Offices use the same policy form both for "life of another" and "own life" cases.

INFANTILE WHOLE LIFE POLICIES

Special Features. There are certain important respects in which Infantile Whole Life policies must differ from Adult Whole Life Policies.

In accordance with Section 4 (2) of the Industrial Assurance Act, 1923, an Office is forbidden to pay any sum on the death of a child under ten years of age, except to the person who took out the policy on the life of the child, being the parent, grandparent, brother or sister of the child, or to the personal representative of that person. Where, however, there is no personal representative of the person who took out the policy, payment may be made to such one of the next of kin of that person as proves that he has defrayed, or undertakes to defray, the funeral expenses of the child.

It follows from this that the "da Costa" clause can be applied only where the life assured dies after the age of ten.

Section 21 (1) of the Industrial Assurance Act, 1923, provides that on every policy on the life of a child under ten years of age issued after the commencement of the Act, there is to be printed

in distinctive type a statement of the effect of Section 62 of the Friendly Societies Act, 1896. In contrast with the statement setting forth the provision of certain other sections of the 1923 Act, it should be noted that this statement does not have to be approved by the Industrial Assurance Commissioner. Failure to comply with the requirements, nevertheless, involves the Office in the same heavy penalties.

Section 62 of the Friendly Societies Act, 1896, limited the amounts which might be insured or paid on the death of a child, and was amended by Section 2 (1) of the Friendly Societies Act, 1924. The question of these limits is fully discussed in Chapter XIII. It is sufficient to say here that in considering whether they have been exceeded in any particular case, not only is the sum assured under the individual policy to be considered, but it must be aggregated with all other amounts payable on the death of the child by any other friendly society (collecting or otherwise), trade union, or industrial assurance company, or under any other policy issued by the same society or company. In view of this and the difficulty of obtaining accurate information relating to other policies when the assurance is effected, a clause is almost invariably incorporated in infantile whole life (and endowment assurance) policies, effectively to prevent the commission of the offence commonly known as "over-insuring." It cannot be too strongly emphasized that it is for this purpose alone that the clause is incorporated, and no advantage is taken of it to enable the Offices to issue infantile policies indiscriminately.

Drafting of Infantile Whole Life Policies to Give Effect to Special Features. The Operative Clause set out in the preceding chapter would be suitable subject to the deletion of the words "or permitted assigns." This is necessary because should the child die before the attainment of age 10 the Office would be forbidden by Section 4 (2) of the 1923 Act to pay any assignee who claimed only as such.

A suitable modification of the "da Costa" Clause would read as follows—

The production by the Company of a receipt for any benefit payable under this Policy signed, if the person whose life is assured shall die under ten years of age, by the Assured or the personal representative of the Assured or, if there shall be no such personal representative, by one of the next-of-kin of the Assured who has defrayed or undertaken to defray the funeral expenses of the person whose life is assured, or signed, if the person whose life is assured shall die after attaining that age, by any person being either an executor or administrator of the Assured or the husband or wife or a relation by blood or connection by marriage of the Assured, or of any permitted assignee of the Policy shall be a good discharge to the Company and shall be final and con-

clusive evidence to all intents and purposes that the benefit therein expressed to have been received has been duly paid to and received by the person or persons lawfully and rightly entitled to the same, and that all claims and demands whatsoever against the Company in respect of such benefit have been fully and truly satisfied and discharged.

The statement of the effect of Section 62 of the Friendly Societies Act, 1896 (as amended by Section 2 (1) of the Friendly Societies Act, 1924), which is required by Section 21 (1) of the 1923 Act to be set out in distinctive type, is usually given at the foot of the full statement required by this latter section, and is in the following form—

It is illegal for any Collecting Society or Industrial Assurance Company to insure or pay on the death of a child any sum of money which exceeds or which added to any amount payable on the death of the child by any other Friendly Society or Branch or any other Industrial Assurance Company or any Trade Union exceeds Six Pounds if the child dies under three years of age, Ten Pounds if it dies under six, or Fifteen Pounds if it dies under ten.

Although not legally required to do so, some Offices add the following statement (or one similar)—

For the purpose of calculating the maximum sum which may be so insured or paid no account shall be taken of any repayment of the whole or any part of the premiums paid in respect of any Endowment Policy.

This is simply a statement of the effect of one of the important provisions of the Industrial Assurance and Friendly Societies Act, 1929.

The clause which is incorporated with the object of preventing the offence of "over-insuring" appears either among the other clauses on the face of the policy or in the Schedule. Assuming it to be among the other clauses, the following would be typical—

Notwithstanding the terms hereof and of the table of benefits contained in the schedule hereto, this Policy shall not insure nor will the Company pay under this Policy any sum of money which exceeds or which when added to any amount payable on the death of the person whose life is assured by any friendly society or branch or by any trade union or by any other industrial assurance company or by this Company under any other policy exceeds in the case of the person whose life is assured dying under three years of age £6, or in the case of the person whose life is assured dying under six years of age £10, or in the case of the person whose life is assured dying under ten years of age £15.

The Preamble to the adult policy requires no alteration unless, instead of references to "the person named in the said Schedule" and to "the person whose life is assured," there are substituted references to "the child named in the said Schedule" and "the child" respectively.

The method laid down in the 1923 Act for the calculation of free paid-up policies has the effect, in the case of infantile whole life policies, of ignoring premiums paid in respect of completed years of assurance under age 10. Where an automatic free paid-up policy plan is in operation, therefore, providing for the granting of free paid-up policies after the payment of (say) two years' premiums, it is usual to take advantage of this provision, and probably the best way of doing so is to say that premiums must have been paid up to the anniversary of the date of the policy next preceding the date upon which the person whose life is assured attains 12 years of age. In these circumstances the Automatic Free Paid-up Policy Clause suggested for use in Adult Whole Life policies requires amendment before it is suitable for Infantile Whole Life policies. The opening sentence of the clause would be, therefore—

After the premiums have been paid up to the anniversary of the date of this Policy next preceding the date upon which the person whose life is assured attains 12 years of age . . .

A similar amendment will be necessary in that part of the clause in the adult policy which reads "If after two years' premiums have been paid payment of premiums is discontinued . . ."

One or two Offices do not ignore the whole of the premiums paid before age 10, and in these cases it is usual to stipulate that should the person whose life is assured be under 10 years of age when the policy becomes a free paid-up policy, no sum shall be paid thereunder if death occurs before age 10. This is a precautionary measure designed to prevent any possible over-insurance.

In view of the increasing nature of the sums assured under infantile policies it is usual to incorporate the scale in the Schedule to the policy—a specimen is shown on page 78.

Where, as in this case, no other premium than one penny is accepted, the premium could be stated in the Operative Clause to be one penny.

If policies are issued for a weekly premium of one half-penny, it must be clearly indicated in the schedule that the sums there shown are for a weekly premium of one penny and that one-half of the amounts are assured for a weekly premium of one half-penny.

In addition to one penny policies an Office might issue policies with weekly premiums of twopence. In these circumstances if the sums assured in the event of death before age 10 under the one penny policy are the full statutory limits (or nearly so), then, as twice these sums cannot be paid on death under age 10, the sums payable on death after that age under the twopenny policy should be more than twice the sum payable after age 10 under the one penny policy. In such cases it is usual to have a different policy

SCHEDULE

Name and Address of the Assured	Name and Address of the Person whose Life is Assured	Age Next Birthday of Person whose Life is Assured	SUM ASSURED SUBJECT TO REDUCTION AS PROVIDED ABOVE			
				SUM ASSURED ACCORDING TO AGE AT DEATH		
			Age last Birthday at Death	Immediate Benefit	After Policy has been in force three calendar months	After Policy has been in force six calendar months
				£ s.	£ s.	£ s.
			Under 3 years . .	1 10	3 0	6 0
		Years	3 years but under 6 years	2 10	5 0	10 0
	Relationship to Assured.....		6 years and over . .	3 15	7 10	15 0
			No Premium other than One Penny taken under this table			

for each premium, in the schedule of each of which is printed the sum assured for the given premium.

The Conditions of Assurance appearing on the back of the policy are very similar in infantile policies to those in adult policies.

Most Offices issue infantile policies as "funeral expenses" policies under Section 3 of the 1923 Act, the policy remaining the property of the original owner throughout. It has to be recognized, however, that in the normal case the policyowner dies before the life assured, and difficulties arise as to subsequent ownership. Moreover, it frequently happens that when the life assured attains manhood (or womanhood) the policy is handed over to him and he continues the payment of premiums, although legally he does not acquire any title.

In an endeavour to meet these difficulties one Office incorporates a clause in the policy making it vest in the life assured on the attainment of age 21. It is doubtful whether the efficacy of the clause would be upheld in a Court of Law, but it works well in practice. Other Offices stipulate that should the life assured die before the attainment of age 10 (or 16), the amount due shall be paid to the person who took out the policy (or his personal representatives), or if after that age, to the executors, administrators, or permitted assigns of the life assured.

Section 20 (1) (*a*) of the 1923 Act, appears to authorize the issue of policies on the life and on behalf of a child under age 16, but in view of Section 4 (2) of the Act it seems doubtful whether such policies should be issued on the life of a child under age 10. If they are, then in the event of the death of the child before age 10, it is difficult to see to whom the sum assured could legally be paid, for Section 4 (2) provides that payment may be made only "to the person who took out the policy on the life of the child, being the parent, grandparent, brother or sister of the child, or to the personal representative of that person." No provision is made for payment to the personal representative of the child. Where policies are issued under Section 20 (1) (*a*) the policies are "own life" policies. One Office makes the position quite clear by issuing what are called "Donor" policies on the lives of children aged 11–16 next birthday at entry. The Preamble reads as follows—

Whereas a proposal has been made by the person named in the Schedule hereto for the assurance hereinafter expressed upon the life and in the name and for the benefit of the child named in the said Schedule who is stated in the proposal to be of the age specified in the said Schedule with the.....ASSURANCE COMPANY, LIMITED (the said Donor, Child and Company, being hereinafter respectively referred to as "the Donor," "the Assured" and "the Company"), on the basis of the said Proposal

By the terms of the Operative Clause, the benefit is payable to the executors or administrators of the assured, i.e. of the child.

In the declaration on the proposal are included in heavy type the words—

My intention in effecting this assurance is to make an absolute gift of the policy to the child, and I request that the policy may be prepared in such form as to effectuate that intention.

The donor would find it difficult, therefore, to maintain at a later date that he paid the premiums under a misapprehension as to his true position.

Adult Endowment Assurance Policies

Although by the terms of the Industrial Assurance and Friendly Societies Act, 1929, Offices are permitted to issue these policies on the life of a parent, child, grandparent, grandchild, brother or sister, very few Offices do so, and the adult endowment assurance policies now issued are almost entirely "Own Life" or "Husband on Wife" or "Wife on Husband." None of these latter types comes within the provisions of the 1929 Act.

In the adult endowment assurance policy the Operative Clause and the Schedule are different from those in the adult whole life policy, but the other clauses are similar.

The Operative Clause would be on lines similar to the following—

Now these presents witness that the Assured having paid to the Company a first premium of the amount specified in the said Schedule, the Company hereby agree that, in consideration of the said payment and provided that on or before every Monday after the date hereof until the expiration of the Term of Years mentioned in the Schedule or until the death of the person whose life is assured whichever shall first happen, there shall be paid to the Company or to their duly authorized Agent a weekly premium of the amount aforesaid, then at the end of the said Term of Years or upon the death of the person whose life is assured within that Term the Company will, upon proof of claim being given to the reasonable satisfaction of the Directors, pay the sum assured specified in the Schedule to the Assured or the executors, administrators, or permitted assigns of the Assured.

The Schedule on page 81 may be taken as a specimen.

Although the "da Costa" clause used in adult endowment assurance policies is usually identical with that in adult whole life policies, at least one Office so amends it as to be applicable, practically speaking, only in respect of the death benefit. The amended clause would read—

The production by the Company of a receipt for any benefit payable under this Policy, "which shall not have been paid during the lifetime of the Assured," signed by any person being either . . . .

The words quoted are those which have been added. They clearly refer to the death benefit, unless the assured dies soon after the maturity of the policy and before he has received payment.

SCHEDULE

Name and Address of the Assured	Name and Address of the Person whose Life is Assured	Term of Years	Weekly Premium: .....shillings.....pence
	Stated in the proposal to be aged .....next birthday Relationship to Assured.....		Sum Assured: (*a*) During the first three calendar months of assurance } One quarter of Full Benefit (*b*) During the second three calendar months of assurance } One-half of Full Benefit (*c*) After six calendar months: £ : : (herein called Full Benefit) Full Benefit shall be payable in the event of the death by accident of the person whose life is assured whenever it may occur.

The Conditions of Assurance to be printed on the back of the policy, and also the statement of the effect of certain provisions of the 1923 Act, are similar to those on the adult whole life policy.

Where "funeral expenses" policies are issued under the provisions of the Industrial Assurance and Friendly Societies Act, 1929, the requirements of Section 3 (3) of the Act must be complied with. Failure to do so constitutes an offence under the Industrial Assurance Act, 1923. It should be noted, however, that where a policy is issued which does not comply with Section 3 (3) of the 1929 Act, the person who has usually paid premiums has *not* a claim for a refund of the premiums paid as he has in the case of a policy which does not comply with Section 21 (1) of the 1923 Act.

The statement referred to in Section 3 (3) of the 1929 Act, which has been approved by the Industrial Assurance Commissioner, is as follows—

STATEMENT OF THE EFFECT OF THE INDUSTRIAL ASSURANCE AND FRIENDLY SOCIETIES ACT, 1929

SECTION 3 AND SCHEDULE

The owner of (*a*) any endowment policy issued for the benefit of the proposer on the life of a person who is the parent, child, grandparent, grandchild, brother or sister of the proposer, or of (*b*) any other endowment policy issued on the life of a child under

10 years of age, is entitled, on application, to claim a free policy or a cash surrender value calculated in accordance with the Act.

Provided that (1) one year's premiums have been paid on the policy; (2) the application is made within one year of the date on which the last premium is paid.

It is an offence on the part of the Society or Company to fail to comply with the claim.

Information as to the amount of the free policy or cash surrender value will be supplied by the Society or Company at the owner's request.

Approved by the Industrial Assurance Commissioner, May 23rd, 1929.

As in the case of the 1923 Act, a similar Act to the 1929 Act was passed in Northern Ireland, and the Industrial Assurance Commissioner for that territory has approved the following statement which must appear immediately below that of the English Act—

The effect of the corresponding provisions of the Industrial Assurance and Friendly Societies Act (Northern Ireland), 1929, is the same as the above.

Approved by the Industrial Assurance Commissioner for Northern Ireland, July 26th, 1929.

Infantile Endowment Assurance Policies

Many of the points mentioned when dealing with infantile whole life policies apply equally to infantile endowment assurance policies. For example, the "da Costa" clause is applicable only if the life dies after the age of 10; and in accordance with Section 21 (1) of the 1923 Act, if the policy is on the life of a child under age 10 at entry, the statement of the effect of Section 62 of the Friendly Societies Act, 1896 (as amended by Section 2 (1) of the Friendly Societies Act, 1924), must be set out in distinctive type.

As was pointed out in Chapter III, most infantile endowment assurances now issued provide for a return of premiums in the event of death before age 10 with the full sum assured on death before maturity after that age, and it is customary to find, therefore, the further statement which is referred to under infantile whole life policies, namely—

For the purpose of calculating the maximum sum which may be so insured or paid no account shall be taken of any repayment of the whole or any part of the premiums paid in respect of any Endowment Policy.

Those policies which provide for a return of premiums paid in the event of death before age 10, do not need to incorporate the clause designed to prevent over-insurance, but those policies which provide for the payment of a definite sum assured should do so.

The practice of the Offices varies considerably in the method of effecting these assurances. They may be issued as —

(*a*) "life of another" or "funeral expenses" contracts,

(*b*) "own life" contracts, the proposal being signed by one party on behalf of the child, or

(*c*) "donor" policies, as explained in connection with infantile whole life policies. For endowment assurances, however, they are issued for all ages, one to 16.

Under (*a*) the sum due on death or maturity would normally be payable to the person proposing the assurance. Under (*b*) it would probably be payable to the person (normally the parent) signing on behalf of the child if the claim arose before the attainment of age 10, and to the child if the claim arose after the attainment of age 10. Under (*c*) the sum due is paid to the "donor" before age 10, but to the child after that age.

It will be understood that in the foregoing, references to various claimants include their executors or administrators.

Space will not permit a detailed description of every one of the above types of policy, but in regard to the policy which provides for a return of premiums in the event of death before age 10, and which is effected for funeral expenses, the Operative Clause would be on the following lines—

Now these presents witness that the Assured having paid to the Company a first premium of the amount specified in the said Schedule, the Company hereby agree that in consideration of the said payment, and provided that on or before every Monday after the date hereof until the expiration of the Term of Years mentioned in the Schedule or until the death of the person whose life is assured, whichever shall first happen, there shall be paid to the Company or to their duly authorized Agent a weekly premium of the amount aforesaid, then at the end of the said Term of Years, if the person whose life is assured be then living, or upon the death of that person within that Term but after attaining the age of 10 years, the Company will, upon proof of claim being given to the reasonable satisfaction of the Directors, pay the sum assured specified in the Schedule to the Assured, or the executors, administrators or permitted assigns of the Assured.

If the person whose life is assured shall die under 10 years of age, the Company will, upon proof of claim being given as aforesaid, return to the Assured or the executors, administrators or permitted assigns of the Assured the whole of the premiums received under the Policy without any interest thereon.

Permitted assigns may be included in the clause, because under Section 2 of the 1929 Act, there is no restriction on the person to whom payments representing a refund of premiums (or a percentage thereof) may be made on death under age 10, such as there is under Section 4 (2) of the 1923 Act.

The Schedule would be similar to that below.

SCHEDULE

Name and Address of Assured	Name and Address of the Person whose Life is Assured	Term of Years	Weekly Premium: .....Shillings.....pence
	Stated in the proposal to be aged .....next birthday Relationship to Assured.....		Sum Assured: £ s. d.

The amendments that would be necessary in the foregoing Operative Clause in order to give effect to the case where the policy is effected on behalf of the child do not require elaboration.

Where the full statutory benefits are payable on death before age 10, the Operative Clause would be similar to that suggested for adult endowment assurances, with the exclusion of the words "or permitted assigns," and the Schedule would be on similar lines to those outlined for infantile whole life policies, with an indication of the term of years and of the sum assured payable on the survivance of the person whose life is assured to the end of that term.

As previously mentioned, the Office which issues "donor" policies provides for the payment of any sum due on claim by death or maturity to the child (or his executors or administrators), provided the claim arises on or after the attainment of age 10. Should the child die before attaining that age, however, the premiums paid are refunded to the donor as the maker of the contract. A clause is also incorporated enabling the child on attaining the age of 16 to give a good discharge for any surrender value paid. If the child has not attained this age the donor may give a good discharge for any surrender value paid, but he must apply the money for the benefit of the child.

One or two Offices, whose automatic free paid-up policy plan provides normally for the granting of free paid-up policies after two years, reduce this period to one year in the case of infantile endowment assurances, because, so long as the age at entry is under 10, these assurances come under the 1929 Act. The standard

automatic free paid-up policy clause, moreover, stipulates that the amount of the free paid-up policy shall be not less than the 1923 Act amount. Generally, this provision remains even where the policy is one to which the 1929 Act applies (as, for instance, infantile endowment assurances), but in one or two instances the minimum free paid-up policy amount in such cases is stated to be the 1929 Act amount. As a means of dealing with the substitution provisions of the 1923 Act (Section 25), it is sufficient, even in cases covered by the 1929 Act, to provide under the automatic free paid-up policy clause for 1923 Act free paid-up policy values. It is for this reason that most of the clauses in actual use do so. It is thought, however, that in practice no matter what the clause states, the 1929 Act values would always be given in 1929 Act cases, except in those rare cases where the 1923 Act values are greater.

In dealing with infantile whole life policies it was mentioned that in those cases the rules for calculating the free paid-up policy amounts under the 1923 Act had the effect of ignoring premiums paid in respect of completed years of assurance before age 10. This does not apply to infantile endowment assurances, where all premiums count, and no amendment of the adult automatic free paid-up policy clause is required on this account.

It should be mentioned that as all infantile endowment assurances issued on the lives of children under age 10 come within the scope of the 1929 Act, they must all set out in distinctive type the statement of the effect of Section 3, and of the Schedule to that Act, as required by Section 3 (3) of the Act.

Pure Endowments

As these policies provide for a return of the premiums paid in the event of the death, during the term, of the person upon whose life the endowment depends, questions of health and age are not of primary importance, and most of the amendments necessary in the types of policy already described are occasioned by this fact.

In the Preamble, reference would be made not to "an assurance upon the life of the person . . .," but to "an endowment upon the life of the person . . ."; and the reference to age would probably be deleted. Instead of "the person whose life is assured" would appear "the person whose life is endowed."

The Operative Clause must be drafted to meet the circumstances, and the following is a specimen—

Now these presents witness that the Assured having paid to the Company a first premium of the amount specified in the said Schedule, the Company hereby agree that in consideration of the said payment

and provided that on or before every Monday after the date hereof until the expiration of the Term of Years mentioned in the Schedule or until the death of the person whose life is endowed, whichever shall first happen, there shall be paid to the Company or their duly authorized Agent a weekly premium of the amount aforesaid, then at the end of the said Term of Years if the person whose life is endowed be then living, the Company will, upon proof of claim being given to the reasonable satisfaction of the Directors, pay the benefit specified in the Schedule to the Assured or the executors, administrators, or permitted assigns of the Assured.

If the person whose life is endowed shall die at any time from the date hereof without having survived the Term of Years, the Company will, upon proof of claim being given as aforesaid, return to the Assured or the executors, administrators, or permitted assigns of the Assured the whole of the premiums received under the Policy without any interest thereon.

The Schedule would be very similar to that outlined under infantile endowment assurances, the only alteration being that the heading of the second column would read "Name and Address of the Person whose Life is Endowed." Although it hardly seems necessary to show the age, most Offices do so.

The Voiding Clause which was given in the preceding chapter would be simplified by the omission of health conditions to read as follows—

This Policy is granted upon the express condition that the same shall become absolutely void and all premiums paid thereon shall be forfeited to and retained by the Company if any of the conditions endorsed hereon have not been or shall not be in all respects performed or observed or if without the express permission of the Directors being endorsed hereon this Policy shall be in any way assigned, sold or mortgaged or otherwise parted with.

There would be no need for a War Clause, and some of the Conditions of Assurance which appear on the typical life policy could be dispensed with, in particular those relating to (*a*) Aviation risks, (*b*) Licensing trade, and (*c*) Power of adjustment for misstatement of age.

The Condition of Assurance given in the preceding chapter as No. 4 would require amendment by referring to the person "whose life is endowed," and by deleting the obligation to produce proof of age.

If it were desired to incorporate a condition making the truth of the statements in the proposal a condition of the contract, then this would refer to statements other than statements of age, health, habits, and occupation—if indeed there were such statements.

It should be mentioned, perhaps, that these policies come within the provisions of the Industrial Assurance and Friendly Societies Act, 1929, if effected on the life of a child under ten years of age or if within the stipulated relationships, just as much as endowment assurances do. It is necessary, therefore, where these circumstances are present, to set out the provisions of Section 3 and of the Schedule to the Act.

On all policies the statement required by Section 21 of the 1923 Act must be set out, and if the policy is on the life of a child under age 10, the further statement of the effect of Section 62 of the Friendly Societies Act, 1896 (as amended by Section 2 (1) of the Friendly Societies Act, 1924) is required.

Old Age Endowments

The Office which issues the type of policy described in Chapter III does so on the lives of children aged 1–15 inclusive, and the assurance is effected by the parent for the benefit of the child.

Where the child is under age 10, the Preamble and Operative Clause read as follows—

WHEREAS a proposal has been made by the Parent named in the schedule hereto for the assurance hereinafter expressed upon the life and in the name and for the benefit of the Child named in the said schedule who is stated in the proposal to be of the age specified in the said schedule with THE.....ASSURANCE COMPANY LIMITED on the basis of the aforesaid proposal (the said Parent Child and Company being hereinafter respectively referred to as "the Parent" "the Assured" and "the Company") NOW THESE PRESENTS WITNESS *as follows—*

1. *A premium of two pence having been paid to the Company on the granting of this Policy the Company* HEREBY AGREE *that if a similar premium shall be paid to them or their duly authorised agent on or before or within twenty-eight days after every Monday succeeding the date of this Policy until the Assured shall attain the age of sixty-five years or previously die then the Company will make one or other of the following payments according to the event which happens, that is to say—*

(i) *If the Assured shall attain the age of sixty-five years then upon proof being given to the reasonable satisfaction of the Directors of the Company of the Assured having attained that age the Company will pay to the Assured such sum as according to the age of the Assured at entry is ascertainable from the table contained in the said schedule hereto as payable in that event, or*

(ii) *In the alternative if the Assured shall die under the age of sixty-five years then upon proof being given to the reasonable satisfaction of the said Directors of the death of the Assured the Company will pay such amount as according to the*

age of the Assured at death is ascertainable from the aforesaid table as payable in that event. In the event of death before attaining 10 years of age the amount will be paid to the person entitled to receive the same under Section 4 (2) (set out in the margin hereof) of the Industrial Assurance Act, 1923. In the event of death on or after attaining the age of 10 years the amount will be paid to the executors or administrators of the Assured subject to the provisions of clause 5 of this Policy.

The Preamble and Operative Clause are similar where the child is over age 10 at entry, except that under the corresponding provision to 1 (ii) above, the amount payable is always payable to the executors or administrators of the assured.

The Clause 5 to which reference is made is the "da Costa" Clause, and in this particular case it applies only in respect of a receipt signed after the death of the assured (which normally means only in respect of death claims), and only where the claim arises after the assured has attained the age of 10.

The Schedule for the policy where the child is under age 10 at entry is shown on page 89.

The Schedule is similar where the child is over age 10, except that the Table of Sums Assured is different, and whenever the child dies before the attainment of age 65 the sum assured is £20. There is, naturally, no reference to the limitation in the amount payable on death before age 10.

These policies are, in effect, a type of infantile endowment assurance and, therefore, much of what was stated when dealing with those policies applies with equal force here.

In the form in which they are written, i.e. "upon the life and in the name and for the benefit of the Child . . ." the policies are in effect "own life" policies, and so far as those issued on lives over age 10 at entry are concerned, they do not come within the provisions of the 1929 Act. No statement is required, therefore, of the effect of the provisions of Section 3 and of the Schedule to that Act.

Whole Life Assurances with Recurring Endowments

As was mentioned in Chapter III, these policies are usually effected as monthly premium policies, and the Operative Clause would be on the following lines—

Now these presents witness that the Assured having paid to the Company a first premium of the amount specified in the said Schedule, the Company hereby agree that in consideration of the said payment, and provided that on or before every fourth Monday after the date hereof during the life of the person whose life is assured there shall be paid to

4—(B.2424)

SCHEDULE

NAME OF THE PARENT	ADDRESS

NAME OF THE ASSURED	ADDRESS	AGE NEXT BIRTHDAY OF THE ASSURED STATED AT
		YEARS

TABLE OF SUMS ASSURED

AMOUNT OF WEEKLY PREMIUM	AGE NEXT BIRTHDAY AFTER ENTRY	IF THE ASSURED ATTAINS AGE 65
		£
	1	50
	2	48
	3	46
TWO PENCE	4	44
	5	42
	6	40
	7	38
	8	36
	9	34
	10	32

IF THE ASSURED DIES UNDER AGE 65

£6 if the assured dies under age 3
£10 „ „ „ at or after age 3 and under age 6
£15 „ „ „ at or after age 6 and under age 10
£20 „ „ „ at or after age 10 and under age 65

If death occurs within 3 calendar months from the date of the Policy the sum payable will be one quarter of the appropriate Benefit specified above and if death occurs after 3 calendar months but within 6 calendar months from the date of the Policy the sum payable will be one-half of the said Benefit. After 6 calendar months or if death is due to accident the full appropriate Death Benefit specified above will be payable.

If a sum is payable on the death prior to age 10 of the Assured by any society or branch or by any Trade Union or Industrial Assurance Company under any insurance now existing on the life of the Assured then the sum assured and payable under this Policy on the death prior to age 10 of the Assured will be that sum only which is permitted by the statutory restrictions relating to assurances on children's lives. The amounts given in this column may therefore be reduced to conform to those restrictions. The effect of the statutory restrictions now in force relating to the amounts of assurances on children's lives in the event of death prior to age 10 is set out on the back of this Policy.

If this Policy has become a free paid-up Policy under Clause 2 above prior to the Assured attaining age 10 the amount assured and payable under the free paid-up Policy on the death of the Assured prior to age 10 will be subject to a like provision for reduction with necessary variations.

In addition the Company will pay such further sum as may be allotted and become payable by way of bonus under the Bonus Distribution Scheme from time to time in force in the Industrial Branch of the Company. N.B.—No bonus will be paid in the event of death before age 10.

the Company or their duly authorised Agent a premium of the amount aforesaid, then the Company will—

1. *At the end of five years from the date hereof if the person whose life is assured be then living, and thereafter at the end of each succeeding period of five years completed during the life of the person whose life is assured, pay to the Assured, upon application being made to the Company's Chief Office and on production of this Policy, the sum specified in the Schedule under the heading "Amount of Quinquennial Endowment." Provided always that the said Endowment shall not be considered as accruing from day to day, and no apportioned part thereof shall be payable on the death of the person whose life is assured.*

2. *Upon proof of death of the person whose life is assured and of the circumstances connected therewith being given to the reasonable satisfaction of the Directors of the Company, pay to the Assured or to the Executors, Administrators or permitted Assigns of the Assured the sum specified in the Schedule as the Sum Assured at death.*

The Schedule would be similar to the following—

SCHEDULE

Name and Address of the Assured	Name and Address of the Person whose Life is Assured	Age	Premium Payable every 4 Weeks	Amount of Quinquennial Endowment	Sum Assured at Death
			s. d.	£ *s.*	£ *s.*
	Relationship to Assured	Years next Birthday			

Joint Whole Life Policies

In the Preamble the lives are referred to jointly as "the Assured," and the Operative Clause would read thus—

Now these presents witness that the Assured having paid to the Company a first premium of the amount specified in the said Schedule, the Company hereby agree that in consideration of the said payment and provided that on or before every Monday after the date hereof during the joint lives of the Assured there shall be paid to the Company or their duly authorized Agent a weekly premium of the amount aforesaid, then the Company will, upon proof of the death of such one of the Assured as shall first die, and of the circumstances connected therewith being given to the reasonable satisfaction of the Directors of the Company, pay the sum assured specified in the said Schedule to the survivor of the Assured, or the executors, administrators or permitted assigns of the survivor.

Printing of Free Paid-up Policy and Surrender Value Scales on Policies

One or two Offices guarantee surrender values on certain types of policy (apart altogether from policies which come within the scope of the 1929 Act), and where this is so a special clause is incorporated and a scale of surrender values is sometimes printed on the back of the policy.

One Office, at least, prints its scale of free paid-up policies on the back of its whole life policies.

Substitution Policies

In one Office, where the automatic free paid-up policy plan has not been adopted, a special form of policy is used for substituted cases.

Family Policies

Section 9 (1) of the 1923 Act gives power to collecting societies to issue a family policy where the family is enrolled in one book or on one card. At least one of the larger collecting societies takes advantage of this provision.

Stamp Duties

Policies issued by Offices other than collecting societies have to be stamped in accordance with the Stamp Act, 1891, and the scale of stamp duties is appended. It is applicable whether policies are issued under seal or under hand—

	Stamp Duty
Where the sum assured does not exceed £10 . . .	1d.
Where the sum assured exceeds £10 but does not exceed £25	3d.
Where the sum assured exceeds £25 but does not exceed £500, for every £50 or fractional part of £50 . . .	6d.

It will be observed that the amount of the stamp duty is dependent on the sum assured. Where, under a policy, there is more than one sum assured the duty is charged on the maximum amount payable.

In accordance with Section 33 of the Friendly Societies Act, 1896, policies issued by collecting societies do not require to be stamped.

CHAPTER VII

ENDORSEMENTS

AFTER the issue of the policy, circumstances frequently arise which make it desirable to vary the terms of the original contract, and usually this can best be done by endorsement. Even before the issue of the policy, indeed, an endorsement will be necessary if the terms of the standard contract are to be varied in any way, e.g. by a "loading" for some extra risk, or by the granting of "immediate full benefit."

The endorsement is entered on the back of the policy and to draw attention to it the face of the policy should be stamped "See Endorsement."

An endorsement should be worded as simply as possible, but must leave no doubt as to its intention.

In accordance with one of the policy conditions, endorsements, to be effective, must be signed at the Chief Office, in some instances by a director or an official. The signature would probably be by rubber stamp impression. In addition to this signature, the endorsement would be dated, and initialed as correct by a responsible clerk. The address of the Chief Office would probably be added.

The number of possible variations in the terms of the contract makes it quite impracticable to deal here with every type of endorsement. It is not necessary to do so, however, as in principle they are all drafted on similar lines, and it is proposed, therefore, to give suitable endorsements for the more usual variations only.

ALTERATION IN AGE.

At some time during the existence of the policy it may be discovered that the age of the life assured was incorrectly stated at the time when the policy was effected and the policy would be endorsed thus—

It is hereby declared that as the age of the person whose life is assured under the within-written Policy was.....years next birthday, and not as therein stated, the Sum Assured will therefore be £ : :
Save as varied hereby the provisions of the within-written Policy shall continue to be of full force and effect.

In the case of *Prudential Assurance Co., Ltd.* v. *Commissioners of Inland Revenue*, [1935] 1 K.B. 101, it was held that where an industrial life assurance policy has been taken out for a certain sum, and later, upon it being ascertained that the age of the life

assured had been overstated, a memorandum is endorsed upon the policy that the sum assured has been adjusted to an increased amount, such memorandum is, for Stamp Duty purposes, a separate policy and must be stamped *ad valorem* on the difference between the two sums. Presumably this ruling would apply to all endorsements where the effect was to increase the sum assured under the policy.

Reduction in Premium

Should the policyowner at any time find himself unable to maintain the payment of premiums at the full rate, but is able to do so at a reduced rate, the policy need not be forfeited, but may be continued for a reduced sum assured in accordance with the following endorsement—

On the application of the Assured, the premium on the within-written Policy has been reduced from.....to.....per week. The Sum Assured will therefore be £ : : . Save as varied hereby the provisions of the within-written Policy shall continue to be of full force and effect.

If the policy had been sufficiently long in force to have acquired a free paid-up policy value, then the Office would allow the free paid-up policy amount in respect of that portion of the premium being discontinued, and the endorsement might be—

On the application of the Assured, the premium on the within-written Policy having been reduced from.....to..... per week such Policy shall become free paid-up for the sum of £ : : and in addition shall, in consideration of the payment of such reduced premium, assure the sum of £ : : making a total Sum Assured of £ : : . Save as varied hereby the provisions of the within-written Policy shall continue to be of full force and effect.

In circumstances where a surrender value is allowed in respect of that portion of the premium being discontinued, the following endorsement would be suitable—

On the application of the within Assured, and in consideration of the sum of £ : : now paid to the Assured, the premium on the within-written Policy has been reduced from.....to.....per week. The Sum Assured will, therefore, be £ : : . Save as varied hereby the provisions of the within-written Policy shall continue to be of full force and effect.

Conversion into Free Paid-up Policy

Although under the automatic free paid-up policy plan one or two of the Offices, instead of endorsing a policy, issue a Free

Paid-up Policy Certificate, endorsement is the more usual practice, and for a whole life policy the following is typical—

It is hereby declared that no further premiums will be required to be paid on the within-written Policy, and the sum payable on the death of the person whose life is assured will be £ : : only. Save as varied hereby the provisions of the within-written Policy shall continue to be of full force and effect.

If the Office is one which declares vested reversionary bonuses on industrial branch policies, the free paid-up policy amount would take into account existing bonuses, but the policy would not continue to participate. In such circumstances the following words would probably be added to the foregoing endorsement—

This sum takes into account any bonus additions, and there is no right to future bonuses.

Alteration of Name by Marriage

The endorsement is quite straightforward, as follows—

It has been declared by the Assured that the within-named..... is now.....by marriage.

Transfer of Title on Death of Assured

In the terms of the Operative Clause in the policy, the sum assured is paid to the assured or to the executors, administrators, or permitted assigns of the assured. On the death of the assured, evidence is frequently submitted to the Office of the title of a certain person either under the terms of a will or otherwise, and future difficulties are avoided if the policy is endorsed in favour of that person immediately. Where the title is derived under a will the following endorsement may be used—

It is hereby declared that the within-written Policy is now vested in .....by virtue of the provisions of the will of the within-named Assured, and by virtue of the written assent of the Executors under such will.

The assent of the executors is necessary, because otherwise any benefit due under the policy would be payable to them.

Where the title is not derived under a will the following somewhat general endorsement would be suitable—

It is hereby declared that the within-named Assured having died, evidence of the title of.....to the within-written Policy has been submitted to and accepted by the Company.

Permission to Assign

As a check on speculation in assurances on lives by persons outside the permitted relationships, and having no insurable

interest, some Offices embody in their policies a clause definitely prohibiting assignment. In certain circumstances, however, the Office may be prepared to waive this clause, and where it does so it is desirable to endorse the policy. The following would be a suitable endorsement—

It is hereby declared that notwithstanding the clause prohibiting assignment, the Company consent to the assignment of the within-written Policy.

EFFECTS OF ADOPTION ORDER

Where a child has been adopted by virtue of an order made under the Adoption of Children Act, 1926 (see Chapter XV), the policy should be endorsed on the following lines—

It is hereby declared that the within-named child having been legally adopted by.....and.....by virtue of an Order dated the.....day of.....19....., made under the Adoption of Children Act, 1926, by the.....Court, the within-written Policy is now vested in the said.....and.....

Where the Order has been made on the application of one person, that person only is named in the above endorsement.

CANCELLATION OF ARREARS ENDORSEMENTS

As explained in Chapter I, Offices have, in times of industrial depression, devised schemes to enable policyowners to maintain their policies in force, even although the premiums on such policies may have become heavily in arrear. One scheme was described under which in the case of whole life policies, payment of the arrears was excused and an equitable deduction made from the sum assured. In the case of endowment assurances, payment of the arrears was excused and the maturity dates of the policies were postponed by the number of weeks for which the premiums were in arrear, the premiums being continued until the amended maturity dates.

Care has to be exercised in drafting the endorsement for whole life policies, because, if it is so worded that the sum assured is stated to be reduced, then on subsequent application for a free paid-up policy, or surrender value, if the calculation has to be made on the basis of the 1923 Act, the Office is recouped only to the extent of 75 per cent of the arrears cancelled, with interest thereon. The point is a technical one arising out of the interpretation of the Rules in the Fourth Schedule to the Act (see also Chapter IX). The following endorsement would get over the difficulty—

It is hereby declared that the premiums under the within-written Policy are now in arrear to the extent of £ : : and in consideration of the payment of this sum remaining in abeyance until

such time as the within Sum Assured becomes payable, the Assured will thereupon pay to the Company the sum of £ : : in lieu of the same and interest thereon. Save as varied hereby the provisions of the within-written Policy shall continue to be of full force and effect.

The difficulty is not present in the case of endowment assurances, and the following endorsement could be used—

It is hereby declared that the premiums under the within-written Policy are now in arrear to the extent of.....weeks, and that such arrears are hereby cancelled and that in consideration of such cancellation the payment of premiums shall be continued from the date of completion of the within-mentioned Term for a period equal to the above-mentioned period, and the date of maturity postponed for a like period. Save as varied hereby the provisions of the within-written Policy shall continue to be of full force and effect.

In connection with endowment assurances it may be mentioned that should the person whose life is assured die before the original maturity date, the Office is not recouped for any of the unpaid premiums, and that should the death occur between the original and amended maturity dates the Office is not recouped to the full extent.

Lost Policies

Most Offices are prepared to issue a copy policy or a Certificate of Assurance (usually the latter) where the policyowner declares that the original policy has been lost, that he has not at any time assigned it or deposited it as security or otherwise dealt with it, and that he has never been bankrupt. A copy policy, when issued, would be endorsed on the face "Duplicate. Original Declared Lost," or in some similar manner. It is not necessary to stamp the copy policy with a revenue stamp.

Where a Certificate of Assurance is issued it would be somewhat on the following lines—

This is to certify that a Policy numbered.....was issued on the.....day of.....19....., the person whose life was assured being.....

The Policy assured the payment of.....Pounds..... Shillings (£ : :) such sum being payable on the death of the aforesaid.....to the Assured..... or to his executors, administrators or permitted assigns, subject to certain conditions specified in the Policy and to the payment of the premium of.....per week.

This certificate is issued at the request of the Assured, who has declared that the Policy has been lost.

Dated this.....day of.....19.....

Secretary.

If the terms of the policy had been varied in any way by endorsement, then the certificate would be worded accordingly.

Some Offices meet the difficulty created by lost policies by requiring a fresh proposal. A policy is then issued bearing a new number, but granting the original benefits as from the date of the original policy.

CHAPTER VIII

FORFEITURE

SECTION 23 of the 1923 Act provides that a forfeiture for non-payment of premiums shall not be incurred by a policyowner until—

(*a*) a notice has been served upon him stating the amount due and informing him that unless this amount is paid within 28 days at a place specified in the notice, his interest or benefit in the policy will be forfeited, and

(*b*) he has failed to comply with the terms of the notice.

Forfeiture, as defined by the Section, does *not* involve the irrevocable loss to the policyowner of all benefit of the policy. On the contrary, he has valuable statutory rights under the 1923 and 1929 Acts (see Chapter IX), and it may be that he has contractual rights in addition in accordance with the conditions of his policy.

There is no statutory or prescribed form of forfeiture notice, and, provided the requirements of the section are observed, each Office may design its own notice. The following may be regarded as typical—

POWERFUL ASSURANCE COMPANY, LTD.

Chief Offices: POWERFUL BUILDINGS, QUEEN STREET, MANCHESTER

(Date).....194.....

NOTICE BEFORE FORFEITURE

To the Owner of the Policy or Policies hereunder mentioned.

I hereby give you notice that in the case of any policy hereunder mentioned in respect of which the amount shown to be due in the statement following is not paid to our Agent at the undermentioned address or remitted to the Chief Office of the Company within 28 days from the service of this Notice your interest or benefit under such policy will be forfeited.

STATEMENT

NAME	POLICY NUMBER	PREM.	AMOUNT DUE	
			s.	*d.*
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

Page in Collecting Book..... *Agent*.....
Agent's Address (*at*.....
which the amount.....
due may be paid) .....

INDUSTRIAL ASSURANCE AND FRIENDLY SOCIETIES (EMERGENCY PROTECTION FROM FORFEITURE) ACT, 1940, Section 2 (1)

If any policy mentioned in this Notice, in respect of which not less than two years' premiums have been paid, was in force immediately before the 1st September, 1939, and is for an amount (exclusive of any bonus additions) not exceeding £50, and if default in the payment of premiums on that policy is due to circumstances arising directly or indirectly out of the war, application in writing may be made within 28 days from the date of the service of this Notice by the owner or any other person on his behalf for the policy to be protected from forfeiture in accordance with the provisions of the above Act.

Any such application should be addressed to the Chief Office of the Company, Powerful Buildings, Queen Street, Manchester.

Any written application addressed to the Company's Chief Office will comply with this Act, but for the convenience of policyowners the Company has provided printed forms and addressed envelopes which can be obtained from the Agent on request.

AUTOMATIC FREE PAID-UP POLICY SCHEME

Every Policy of Industrial Assurance upon which not less than two years' premiums have been paid (ignoring, in the case of Infantile Whole Life policies, all premiums paid in respect of complete years of assurance under age 10) upon forfeiture automatically becomes a Free Paid-up Policy. The Company will take steps to issue to the owner of the Policy a Certificate stating the amount for which such Policy has become free. If in any case the owner does not receive such Certificate, he will materially assist the Company by communicating with the Agent.

The operation of this Notice and the vesting of such Automatic Free Paid-up Policy (if any) does not deprive you of any free policy or surrender value rights under the Industrial Assurance and Friendly Societies Act, 1929. Particulars of such rights are endorsed upon the policy and/or the premium receipt book or may be obtained upon application to the Company's Chief Office.

It is earnestly hoped you will see your way to pay the amount due and thus avoid any loss to yourself.

For and on behalf of the Company,

John Smith, Secretary.

It will be observed that the notice contains the statement in prescribed form relating to the Industrial Assurance and Friendly Societies (Emergency Protection from Forfeiture) Act, 1940 (see page 26). Reference is made also to an automatic free paid-up policy plan. An Office which had not adopted the plan would make no reference to it in the notice, but would refer to the statutory and contractual (if any) rights relating to free paid-up policies and to any other contractual rights, such as the right of reinstatement within twelve months, subject to satisfactory evidence of health.

Forfeiture notices were first required by the Friendly Societies Act, 1875, which applied both to Friendly Societies and to Industrial Assurance Companies. In reference to the requirement

as to forfeiture notices in the Friendly Societies Act, 1879, re-enacted by the Collecting Societies and Industrial Assurance Companies Act, 1896, the Chief Registrar of Friendly Societies wrote in 1897: "This provision is intended to protect the member against being thrown out of benefit by the collector not calling upon him. Societies, in many cases, absolutely maintain themselves by their lapses." The practical value of a forfeiture notice to-day would appear to have diminished since the adoption by many Offices of the automatic free paid-up policy plan. Furthermore, it is in the agent's own interest to collect premiums, and Offices take all possible steps to ensure the prompt collection of premiums and the prevention of lapsing. In the majority of cases the policyowner has already decided not to continue the payment of premiums before the notice is served and has deliberately allowed the premiums to run into arrear.

Prior to the passing of the 1923 Act there were practically no legal decisions relating to forfeiture notices, but the Commissioner, in the course of hearing disputes, has given many decisions regarding the operation of Section 23. These decisions in some cases impose an onerous burden upon the Offices. The Association of Industrial Assurance Companies and Collecting Friendly Societies (now known more simply as the Industrial Life Offices Association), in the course of evidence before the Departmental Committee, 1931, gave examples to illustrate the effect of certain of the Commissioner's decisions. The examples given show (1) that even a trifling overstatement of less than a penny in the statement of the amount due has been held to invalidate the notice, with the result that the "lapsed" policy has been held to be in force and the Office liable to pay a claim, less the arrears, when it is abundantly clear that the failure of the policyowner to comply with the notice served had not been caused in any way by the trifling inaccuracy therein, (2) that failure on the part of an Office to prove service of a forfeiture notice in respect of a policy on which it is admitted no premiums have been tendered by the owner for many years has rendered the Office liable for a claim arising years after the cessation of premiums, (3) that in a joint life case, although it was established that a forfeiture notice addressed to one of the assured persons only, did in fact reach both persons, yet the service was held to be bad and the Office liable to pay the claim.

The Section throws upon the Office the onus of proving that a notice was served. When a dispute involving forfeiture arises, if the Office cannot furnish the necessary proof the policy is presumed to be still in force, and if the life assured is deceased, the full sum assured, less arrears of premium, is payable by the

Office. Offices have to keep an immense number of documents, in such a manner that they can be traced at short notice, but to retain indefinitely sufficient data to prove service of forfeiture notices in respect of lapsed policies is quite impracticable.

The method of service of a forfeiture notice (or any other notice which the Act requires to be served upon a person) is prescribed in Section 41, but subject to this each Office may decide for itself in what way it will effect service. In some Offices notices are sent by post from the Head Office direct to the policyowner. In others they are written in the District Offices and are served by the agents—either by hand or by post. In either case counterfoils are kept, and where the notice is served by the agent the counterfoil would indicate the method of service adopted.

Where the notice is served by post, a system should be set up for proving posting, and in accordance with Section 26 of the Interpretation Act, 1889, service would be deemed to have been effected at the time at which it would be delivered in the ordinary course of post—unless proved to the contrary.

A summary of the Commissioners' legal decisions is given at the end of this chapter, and the following are the more important points which emerge—

1. The amount due must not be overstated.

2. Where one forfeiture notice is given in respect of several policies included in the same premium receipt book, the amount of arrears stated in the notice as to each policy should be a proportionate amount of the total arrears calculated in accordance with the amount of the premium payable on each policy, and where impossible fractions result, the amount must be taken to the nearest halfpenny. It is insufficient to state only the total amount of arrears without apportionment to each policy.

3. The Section can be waived by the person assured.

4. Notice must be served on each life assured under a joint life policy.

5. A forfeiture notice is not waived by acceptance of a portion of the arrears during the days of grace.

6. Where a forfeiture notice is served by post, the date of service is the date of delivery, and notices intended for different persons must be in separately addressed envelopes—one envelope may not be addressed to more than one person.

7. A forfeiture notice is not necessarily invalidated by the quoting of the wrong policy number if the recipient is not misled thereby.

8. The onus of proving service is on the Office, no matter how long ago payment of premiums ceased.

SUMMARY OF COMMISSIONERS' DECISIONS

Last-known Place of Abode

Bain v. *Pearl*, 1928 E. 17

A forfeiture notice, properly addressed, was served on the policyowner by being put by the Company's agent into the slot intended for letters in the door of the house at which, as the Company knew, she was living at the time. The policyowner said that she never received it, and contended that Section 41 of the 1923 Act, providing that notice may be left at the last known place of abode of the person to be served, did not enable it to be left at the address where she was in fact, to the Company's knowledge, living at the time.

The Commissioner held that the words "last known place of abode" include the address at which the person to be served in fact lives to the knowledge of the Office at the time of service.

Statement of Amount Due

Hancock v. *Northern Counties*, 1928 N.I. 20

The forfeiture notice in question showed the arrears on four policies in varying amounts. The weekly premium on each policy was 6d., and lump sum payments were made in respect of the entire account. The Commissioner for Northern Ireland held that the proper appropriation of the payments of premiums was rateably against the various policies. Since, however, only one of these four policies was in dispute, and on the above argument the amount due should have been shown as 6s. 1½d., instead of the amount of 5s. 8d. actually shown, and since the owner of the policy did not suffer loss from the inaccuracy, but on the other hand really benefited, the Commissioner held that the validity of the notice was unaffected.

The Commissioner pointed out that Section 23 requires particulars of the "amount due," and not of the amount "in arrear."

Miskimmin v. *Britannic*, 1931 N.I. 25

The amount due was understated on the notice. The Commissioner for Northern Ireland held that the rights of the person assured had not been prejudiced thereby, and the claim was dismissed.

In the course of the award the Commissioner said: ". . . if—as I think—the statute is to be construed as meaning 'the entire amount due,' it seems competent for the insurers, if they so desire,

to abandon a portion of the arrears and claim the balance only as due."

ACCEPTANCE OF PREMIUMS BY AGENT AFTER EXPIRATION OF DAYS OF GRACE

Sherries v. *Northern Counties*, 1928 N.I. 26

A policy on the life of a child was properly forfeited. Subsequently the collector talked to the parent about revival. He accepted 5s. 6d., and, it is alleged, made it clear that he had no power to bind his Office to revive the policy. The amount of 5s. 6d. was entered in the premium receipt book in pencil. The child was ill at the time and subsequently died. The Commissioner for Northern Ireland held that the forfeited policy had not been revived.

WAIVER OF FORFEITURE NOTICE BY OFFICE

Morton v. *Pearl*, 1926 E. 14

A forfeiture of a policy on the ground of non-payment of premiums may be waived by subsequent acceptance of premiums in such circumstances as would naturally lead the assured to believe that the insurer intended to treat the policy as subsisting.

APPORTIONMENT OF ARREARS IN RESPECT OF SEVERAL POLICIES

Thomas v. *Refuge*, 1927 E. 20

The Commissioner ruled that where a forfeiture notice is given in respect of several policies included in the same premium receipt book, the amount of arrears stated in the notice as to each policy should be a proportionate amount of the total arrears, calculated in accordance with the amount of the premium payable on each policy, and, where impossible fractions result, taken to the nearest halfpenny.

It was suggested by the company (1) that the proportionate method of division need not be strictly adhered to, and (2) that the overstatement (5s. 6d. instead of 5s. 4$\frac{5}{7}$d.) was so trivial that it ought not to invalidate the notice. As to (1) the Commissioner thought that no other method was possible, unless in some very exceptional case, where the actual arrears on each policy could be ascertained. As to (2), he was clearly of opinion that any overstatement, however small, apart from the necessary adjustment of impossible fractions to a payable coin of the realm, must invalidate a forfeiture notice.

(See also *Hancock* v. *Northern Counties*, under heading "Statement of Amount Due.")

EFFECT OF STATEMENT OF TOTAL ARREARS ONLY IN RESPECT OF SEVERAL POLICIES

Bedford v. *Liverpool Victoria*, 1925 E. 17

The Commissioner held that the forfeiture notices served did not comply with the provisions of Section 23 in that the amount of arrears of premium due in respect of each assurance was not stated, and that the policies were still in force.

In alleging that if the recipient did not pay the total sum, the whole of the policies would be forfeited, the notice was stating something which was incompletely true, inasmuch as she was entitled to pay the arrears due on any one or more of the policies and avoid forfeiture of such one or more policies, and for this purpose she was entitled to know the amount that it was necessary for her to pay so as to preserve any particular policy.

IMMATERIAL MISTAKE OR OMISSION IN FORFEITURE NOTICE

Morley v. *Pearl*, 1927 E. 12

A mistake in the number of a policy quoted on a forfeiture notice does not invalidate the notice, if the recipient is not misled thereby.

The Commissioner, in the course of the award, said: "There is no obligation under the Act to state the number of the policy on the notice, though no doubt the policy ought to be sufficiently identified."

WAIVER OF STATUTORY RIGHT TO FORFEITURE NOTICE

Rowlands v. *British Legal*, 1925 E. 19

Section 23 is intended for the protection of the member or person assured, and can be waived by him.

The Commissioner said that in his view renunciation of a statutory right must be reasonably clear and unequivocal. It could not, for instance, be assumed from mere non-payment of premiums that the member or person assured had waived his right to a forfeiture notice, since it is precisely for persons who have failed to pay their premiums that the protection was introduced. In the case in question, however, no premiums were paid for fourteen months before the life assured died; moreover, four months after the date of the alleged forfeiture the claimant proposed the same life with another Office at a premium of 1s. 6d. per week, as against 1s., which she was paying to the defendant company, and returned a negative answer to the question on the proposal whether the life was at that time assured in that or any other Office. The Commissioner dismissed the claim.

(See also *Magennis* v. *Catholic Life*, under the heading "Evidence of Service.")

JOINT ASSURANCE, SERVICE ON ONE LIFE ONLY

Pickess v. *Prudential*, 1928 E. 17

The company served a forfeiture notice addressed to the husband in the case of a husband and wife joint life assurance. The husband opened it and showed it to his wife.

The Commissioner held that there had been no forfeiture. Section 23 requires the notice to be served on the member or person assured. In the case of a policy on joint lives, each life is the person assured, and the notice must be served on each, and it must be served by or on behalf of the society or company and not by someone who happens to be the recipient of a notice served on him relating to the same policy. Also, Section 41 requires a forfeiture notice to be served by being delivered or sent by post to the member or person assured or so delivered or sent or left at his last known place of abode. No notice was served in any of these ways on the wife.

RIGHT TO FORFEITURE NOTICE NOT BARRED BY LAPSE OF TIME

Ralph v. *Royal Liver*, 1926 E. 13

In July, 1926, a claim was made for the sums assured under two policies in respect of which no premiums had been paid since 1914. The Society was unable to prove the service of a forfeiture notice and set up the Statute of Limitations in defence of the claim.

The Commissioner held that the Statute of Limitations did not begin to run against the assured till the claim to the sum assured arose, and that, therefore, the non-payment of premiums for more than six years before the claim was immaterial.

EVIDENCE OF SERVICE

Franks v. *Britannic*, 1924 E. 101

The company's manager for the district in question gave evidence that he received the schedules of lapses from the agents and instructed his clerk to make out the notices. The clerk produced a lapse notice book containing a notice dated 3rd December in her handwriting and addressed to the policyowner at his proper address, and swore that she stamped and posted it, as she stamped and posted all lapse notices made out by her, at a certain letter-box at a certain time.

Although the Commissioner accepted the evidence of the clerk, and held that the notice was served, he observed that no postage book or record of postages was kept, and no certificate of posting

was obtained, nor was the letter containing the notice registered. He could imagine plenty of cases where an Office using the post for service would find itself in considerable difficulty, if service was questioned, unless very accurate steps had been taken by it to provide material for establishing the fact of posting.

Magill v. *Nation Life*, 1927 N.I. 15

The policy in this case was effected by X on her own life. The agent was in the habit of collecting the premiums from the claimant, who resided with X. X provided the money to pay the premiums.

The Commissioner for Northern Ireland, having dealt with the claimant's title to claim under the policy, awarded in favour of the claimant, as the company admitted serving the forfeiture notice upon the claimant, and not upon X, who was the owner of the policy and the person assured.

Magennis v. *Catholic Life*, 1929 N.I. 28

Two policies had been effected in 1925 and one in 1926. In January, 1927, the company issued forfeiture notices. Carbon copies of the notices were produced by the agent, who had written the originals, and revealed the fact that the policyowner was incorrectly named James Magennis instead of Charles Magennis. The Commissioner for Northern Ireland held that the mistake so made was vital and sufficient to vitiate the notices, for if another than the person assured was named therein they can hardly be said to have stated the amount due from the assured as Section 23 requires. The second point was the company's inability to prove service. All the company had to show in order to do this was that they had prepaid and posted a letter containing the notices addressed to the claimant's last known place of abode. He added that one would think it was a simple matter to devise a system of office routine which would make easy the discharge of this burden of proof and prevent any question of doubt arising as to whether or not the required service had been effected. But in this case no such system had been employed. The agent said that he handed the notices in envelopes to another employee whose duty it was to post them, and a book was produced which was said to contain details of all forfeiture notices made out for service. But there was no posting record and nothing else to show that the notices were in fact posted. It could not be suggested that posting had been proved, and on this ground alone the company's defence must fail.

In March, 1927, however, a further proposal was obtained, upon which it was stated that there were no assurances on the

life proposed in the Catholic Life or in any other Office. Also, in another dispute, the claimant had filed a declaration stating that the policy then in dispute, which was on the same life, was "in continuation" of these policies. It was contended that these facts, and the non-payment of premiums on the previous three policies, constituted a waiver by the claimant of the protection afforded him by Section 23. The Commissioner held, *inter alia*, that as the claimant had said nothing either on examination or cross-examination which could be regarded as an admission that he had acquiesced in the lapsing of the policies, the claim must be allowed, and that waiver, if it is to be acted upon, must be clear and unequivocal.

NO WAIVER OF FORFEITURE NOTICE BY ACCEPTANCE OF PORTION OF ARREARS DURING DAYS OF GRACE

Conlon v. *Britannic*, 1924 E. 102

A forfeiture notice is not waived by acceptance of a portion of the arrears during the days of grace.

ONE NOTICE BY POST TO TWO POLICYOWNERS IS INVALID

Sloan v. *Royal Liver*, 1929 E. 12

The forfeiture notice was addressed to "John Sloan and Annie Sloan," and was posted to them at their proper address. The notice set out three policies, on the lives of Henry Sloan, Thomas Green, and Jane Wood, without indicating of which policy or policies John Sloan and Annie Sloan, respectively, was the proposer.

The Commissioner held that this was not good service on either John Sloan or Annie Sloan, and that the contents of the notice were embarrassing and made it invalid.

ORDINARY BRANCH POLICY OF COLLECTING SOCIETY

Wilkes v. *Scottish Legal*, 1927 E. 11

The Commissioner held that Section 23 (2) makes it clear that a forfeiture notice is required in respect of an ordinary branch policy of a collecting society issued before 1st January, 1924, and indicated that there were good reasons for holding that a notice was required in respect of such a policy issued after that date.

DATE OF SERVICE OF FORFEITURE NOTICE

Mooney v. *Scottish Legal*, 1928 E. 20

Service is to be deemed to be effected on the date of delivery, so that where a forfeiture notice gives a period of 28 days from the date of the notice and is served by post so that in the ordinary course of post it would be delivered the day after the date of the

notice, the notice is bad, as not giving 28 days for payment as from the date of service.

SERVICE OF TWO NOTICES IN ONE ENVELOPE

Dollard v. *Liverpool Victoria*, 1936 E. 16

Two notices were served, one addressed to Elizabeth Dollard and one to her husband, Peter Dollard. The notices were in perfect order, but were served by post in one envelope addressed to Mr. and Mrs. Dollard. The letter, in fact, was not received by either of the addressees, but even if it had been, there was no certainty which of them would have received it. The Commissioner held that the service was not good service.

SERVICE ON ASSURED IN NAME BY WHICH HE HABITUALLY PASSES

Limbrick v. *Refuge*, 1927 E. 17

The forfeiture notice in question was addressed to "Mr. Hanbury, Dentist," at his business address. The policyowner's real name was Limbrick, but he carried on business under the name Hanbury.

The Commissioner held that a forfeiture notice may be served on a policyowner by addressing it to him in the name under which he habitually passes.

FORFEITURE NOTICE ADDRESSED TO DEAD PERSON

Cain v. *Refuge*, 1928 E. 16

The Commissioner knew of no principle of law which decides that a notice served on a dead person "at her last known place of abode" with the knowledge that she is dead is good service, and he decided that such service is bad.

IF NOT SPECIFICALLY ADDRESSED, SERVICE AT PLACE OF ABODE ON WRONG PERSON IS NON-EFFECTIVE

Sneddon v. *Pearl*, 1929 E. 11

The handing of an unaddressed notice of forfeiture to the wrong person, who lives at the same address as the right person, does not constitute a leaving of the notice at the last known place of abode of the latter.

WAIVER OF FORFEITURE NOTICE BY ISSUE OF SUBSEQUENT NOTICE

McClure v. *Salvation Army*, 1924 E. 98

The Commissioner held that the issue of a subsequent forfeiture notice, whether it was unnecessary or not, operated as a waiver of the first.

SERVICE ON PERSON OF UNSOUND MIND IS NON-EFFECTIVE

Gallop v. *Royal Co-operative*, 1936 E. 17

The Commissioner considered that as a forfeiture notice required the recipient, if he wished to save his policy, to take certain action, i.e. to pay the amount stated within 28 days at the place specified in the notice, the addressing of such a notice to a person of unsound mind was a mockery. He held that service in such circumstances was non-effective.

CHAPTER IX

FREE PAID-UP POLICIES AND SURRENDER VALUES

IN this chapter it is proposed to deal with the policyowner's rights under Section 24 of the Industrial Assurance Act, 1923, and under Section 3 of the Industrial Assurance and Friendly Societies Act, 1929. The rights of a policyowner on substitution under Section 25 of the 1923 Act are considered in Chapter X. The bases of the calculation of free paid-up policies and surrender values are the same under Section 25 of the 1923 Act as under Section 24 of that Act, but under the former benefits accrue after a shorter duration of premium payments.

FREE PAID-UP POLICIES AND SURRENDER VALUES UNDER THE 1923 ACT

FREE PAID-UP POLICIES

The granting of free paid-up policies was common practice long before the passing of the 1923 Act, but the amounts granted were not generally on as generous a scale as the 1923 Act provided. The 1923 Act served to bring into line the weaker Offices, and in order to give them time to adjust their finances, Section 24 (5) provided that they should not be required to grant free paid-up policies under the terms of the Section in the case of policies forfeited before the expiration of five years after the passing of the Act, i.e. before 7th June, 1928. During the deferment period the Offices greatly increased their strength and were able better to bear the onerous terms of the 1929 Act which followed.

It has been suggested that free paid-up policies for small amounts never become claims, and that in these circumstances the Offices benefit by them. Greater importance attaches to this criticism by reason of the adoption since 1930 by the majority of Offices of an automatic free paid-up policy plan under which free paid-up policies, often for trifling amounts, are granted, without application by the policyowner, after policies have been in force for two years (or, in two or three Offices one year) only. Up to the present, however, no figures have been produced to show that a material proportion of free paid-up policies never become claims. Furthermore, one may advance the argument that even if it were so, profit, or a large proportion of it, which enures from this source, is retained for the benefit of policyowners as a body. Some Offices have anticipated the criticism by

allowing a cash surrender value where the free paid-up policy amount is less than, say, £1.

THE RIGHT TO CLAIM FREE PAID-UP POLICY

Section 24 of the 1923 Act provides that after a forfeiture notice has been served upon the owner of an industrial assurance policy, he is, on making application within one year from the date of the service of the notice, and subject to certain limitations, entitled to a free paid-up policy.

Free paid-up policies may be claimed in respect of—

(1) Whole life policies, or policies for a term of fifty years or upwards, where the life assured, at the date of default in the payment of premiums, is over fifteen years of age, and upon which not less than five years' premiums have been paid, or

(2) Policies for a term of twenty-five years or upwards but less than fifty years, upon which not less than five years' premiums have been paid, or

(3) Policies for a term of less than twenty-five years upon which not less than three years' premiums have been paid.

THE RIGHT TO CLAIM SURRENDER VALUE

(*a*) **Residence Abroad.** By Section 24 (1) (ii) the owner of a policy who is permanently resident, or submits satisfactory proof of his intention to make his permanent residence outside Great Britain, the Isle of Man, and the Channel Islands, is entitled to the surrender value on forfeiture, subject to the same limitations which govern the right to claim a free paid-up policy.

(*b*) **Disappearance of Life Assured.** Section 24 (1) (ii) provides that on the forfeiture of a policy the policyowner is entitled to the surrender value if the person whose life is assured has disappeared and his existence is in doubt, subject to the same limitations which govern the right to claim a free paid-up policy. Section 32 (2) of the Act also deals with disappearance and gives power to the Commissioner to award the surrender value of a policy, which is in force and has not been forfeited, if the policy has acquired a value.

In the latter case a point of difficulty arises where the premiums on a policy are in arrear at the date of the award. Section 32 (2) provides for payment of the surrender value "at the time of the award." In the case of *Watkins* v. *Britannic* (1926 E. 82) the Commissioner decided that in such circumstances the surrender value should be calculated as at the date in respect of which the last premium was paid. This date is presumably used for all surrender values under the 1923 Act.

The Calculation of Free Paid-up Policy Amounts and Surrender Values under the 1923 Act

The statutory minimum basis of calculation of free paid-up policies under the 1923 Act is laid down in the Fourth Schedule to the Act. While Offices may not calculate free paid-up policies upon a basis less favourable to policyowners, there is nothing to prevent a basis more favourable to policyowners being used.

The statutory minimum amount of free paid-up policy is the reversionary equivalent of 75 per cent of the *value* of the policy, payable upon the happening of the same contingency as the sum assured under the original policy.

The *value* of the policy according to Rule 1 in the Fourth Schedule to the Act, is the difference between the present value of the sum assured, including any bonus added thereto, and the present value of the future net premiums.

A *surrender value* is payable only in exceptional circumstances (e.g. under Section 24 (1) (ii), under Section 25 at the option of the Office, and under Section 5), and is equal to 75 per cent of the *value* of the policy [Section 29 (2)].

In calculating the net premium for the purpose of ascertaining the *value* of the policy, the first year of the policy's duration may be ignored (Rule 2). This is presumably based on the assumption that the first year's premiums are entirely absorbed by the cost of the death risk in the first year and by procuration fees, commissions, and other expenses. The net premium would therefore correspond to age $x + 1$ where x is the age next birthday at entry. In the case of endowment assurances it may be assumed that the term is one year less than it actually is.

The rate of mortality among children is high at birth and decreases for several years with increase in age. The sums assured under whole life policies on the lives of children under age 10 increase with the duration of the policy, usually in such a way that the amount payable in the event of death before age 10 is the full amount allowed by Section 2 (1) of the Friendly Societies Act, 1924. It is generally assumed that during these early years the premiums are just sufficient to cover current claims and expenses, and that as a result the policy acquires no value. The Schedule to the 1923 Act provides that in the case of these policies no account shall be taken of any period for which the policy was in force before the policy anniversary next preceding the attainment of age 11 [Rule 2 (*b*)], and the net premium used corresponds to age 11.

In the case of a policy which at its inception was a substitution of a previous policy (see Chapter X), the net premium is to be based upon the sum assured that would have been payable if

the life assured had not been assured with the Office previously [Rule 2 (*c*)]. The object of this rule is to ensure that the owner of a substituted policy shall obtain the benefit of any value attaching to the earlier policy.

Calculations are to be based upon a specified mortality table, namely, the English Life No. 6 (Persons) Table, and interest at the rate of 4 per cent per annum is to be assumed. (General Rules 1 and 2.)

Only completed years' premiums are required to be taken into account. (General Rule 3.)

The formulae, expressed in actuarial symbols, for the calculation of surrender values and free paid-up policies for £1 original sum assured are as follow—

(1) Whole Life Assurance. Entry age over 10—

$$\text{Surrender Value} = \cdot 75\,[\bar{A}_{x+n} - \bar{P}_{x+1} \cdot \ddot{a}_{x+n}]$$

$$\text{Free Paid-up Policy} = \frac{\text{Surrender Value}}{\bar{A}_{x+n}}$$

(2) Whole Life Assurance. Entry age up to and including 10—

$$\text{Surrender Value} = \cdot 75\,[\bar{A}_{x+n} - \bar{P}_{11} \cdot \ddot{a}_{x+n}]$$

$$\text{Free Paid-up Policy} = \frac{\text{Surrender Value}}{\bar{A}_{x+n}}$$

(3) Endowment Assurance—

$$\text{Surrender Value} = \cdot 75\,[\bar{A}_{x+n:\overline{t-n}|} - \bar{P}_{x+1:\overline{t-1}|} \cdot \ddot{a}_{x+n:\overline{t-n}|}]$$

$$\text{Free Paid-up Policy} = \frac{\text{Surrender Value}}{\bar{A}_{x+n:\overline{t-n}|}}$$

x denotes age next birthday at entry.
t denotes original term.
n denotes duration of policy in completed years at date at which value is to be ascertained.

In the calculation of free paid-up policies the date at which the amount has to be ascertained is the date when the premium following the last premium paid became due [Section 24 (2)].

Limit of Amount of Free Paid-up Policy under the 1923 Act

In order to protect the Offices from the disturbing effects of lapse and re-entry, the proviso to Section 24 (2) states that the amount of the minimum free paid-up policy shall not be greater than the difference between the original sum assured (together with any bonuses) and the sum assured which could be obtained at the date of forfeiture under a similar policy on the life for the

same premium according to the age next birthday attained. This limitation does not apply when the lapsed policy is substituted by a new one under the provisions of Section 25.

Free Paid-up Policy Payable upon Contingency Differing from that of Original Policy

Under the authority of Section 24 (1) (i) of the 1923 Act, the sum assured by a free paid-up policy may be made payable upon a contingency other than that upon the happening of which the sum assured under the original policy would have been payable, but such contingency must not be less favourable to the policyowner.

Policy Conditions Relating to Surrender Values and Free Paid-up Policies

Section 24 (4) states that if the rules of a society or the conditions of a policy are such as would confer on the policyowner on forfeiture rights more favourable than the statutory rights, nothing in the section shall prevent him from claiming the former.

Statement in Premium Receipt Book

Section 24 (3) of the 1923 Act states that in every premium receipt book issued after the commencement of the Act there shall be printed a notice setting forth the rights of a policyowner to claim a free paid-up policy under Section 24 (1) or a surrender value under Section 24 (1) (ii), and a notice that upon application to the Head Office information as to the amount of such free paid-up policy or surrender value will be supplied, and it shall be the duty of the Office to supply such information. The notice is usually the same as that giving the effect of Section 24 printed on all policies in accordance with Section 21 (1) (see page 72).

FREE PAID-UP POLICIES AND SURRENDER VALUES UNDER THE 1929 ACT

The Right to Claim Free Paid-up Policy or Surrender Value

Section 3 of the 1929 Act gives the policyowner the right to claim either a free paid-up policy or a surrender value at his option at any time within one year from the date on which the last premium was paid, notwithstanding that a forfeiture notice may not have been served. This right applies to "life of another" pure endowments or endowment assurances on the life of a parent, child, grandparent, grandchild, brother or sister, and to *all* infantile endowments and endowment assurances where the child was under age 10 at entry, provided that not less than one year's

premiums have been paid. Policies effected by a wife on the life of her husband, or by a husband on the life of his wife, or adult "own life" policies, are not included for the reason that the legality of such policies had never been questioned.

The right to claim a surrender value may be severely criticized on several grounds. The function of a Life Office is to issue policies under which it contracts to pay, in return for periodical premiums, a certain sum at some future date depending upon certain life contingencies. The idea of a surrender value arose in the early days of life assurance when certain Ordinary Offices were willing to buy back a policy as an investment in the form of a reversion to the sum assured on the death of the policy-owner. The granting of surrender values would place an Office in a difficult position if there were anything in the nature of a panic and a "run" on the Office. In order to minimize the possibility of many policyowners claiming surrender values so that the forced sale of investments becomes necessary, some Ordinary Offices even will not guarantee surrender values upon any defined basis of calculation, however unfavourable to the policyowner. A Life Office is not a savings bank, and it does not keep a large portion of its assets in liquid form, which a savings bank must do. A Life Office endeavours, as far as is practicable, to keep its assets fully invested in securities, a large proportion of which are not readily marketable, and it is thereby able to earn and to give policyowners the benefit of a relatively high rate of interest guaranteed from the date of the contract. If, however, generous surrender values must be paid on demand, Life Offices may be held to assume the function of savings banks, and a large proportion of their assets must be kept in liquid form to the disadvantage of policyowners.

The above arguments apply with special force to Industrial Offices. Periods of industrial depression affecting either the whole country or only certain localities are likely to force the owners of industrial policies to surrender them in order to obtain a lump sum of money to relieve their pressing needs, and this may give rise to a serious "run." There are many improvident policyowners who will not hesitate to surrender their policies to satisfy an immediate desire for cash, however unworthy the purpose for which it may be desired. Furthermore, a feature of life assurance is thrift, facilitated by the regular collection of premiums.

It is generally accepted that the granting of surrender values on industrial policies encourages the surrendering of policies and the effecting of new ones in their stead, and there would be a tendency for some agents to exploit them for the purpose of securing new business.

The Calculation of Free Paid-up Policy Amounts under the 1929 Act

It is the almost universal practice of Ordinary Offices to grant proportionate free paid-up policies on endowment assurances. In general, the practice is theoretically defensible, and the method is readily applied and easily understood.

The 1929 Act, which deals only with certain pure endowments and endowment assurances, adopts the proportionate method for the calculation of the amount of free paid-up policy, and does not follow the longer process of the 1923 Act of calculating the value of the policy first and the amount of free paid-up policy therefrom.

The Schedule to the 1929 Act provides that the amount of free paid-up policy shall be such proportion of the original sum assured (including any addition by way of bonus) as the amount of premiums paid bears to the amount originally payable. Fractions of a year's premiums must be taken into account.

It will be observed that a policyowner who takes a free paid-up policy will secure only a proportion of any addition by way of bonus. This is contrary to Ordinary Office practice, whereby the whole of the existing bonuses would normally be added to the proportionate free paid-up policy. The limitation was inserted in response to representations made to the effect that to add the bonuses in full would press in a totally unreasonable manner upon Offices, which, prior to the 1929 Act, had already granted bonuses on a basis, and to an extent they would not have done could it have been envisaged that there was any possibility of statutory values on a basis as high as that of the 1929 Act becoming obligatory.

The Calculation of Surrender Values under the 1929 Act

Section 3 (1) (*b*) of the 1929 Act provides that a surrender value shall be calculated by taking 90 per cent of the present value of the amount of proportionate free paid-up policy upon the same basis of mortality and interest as is specified for the calculation of values under the 1923 Act.

It will be observed that the method of calculation required by the 1929 Act makes no allowance for the heavy outgo in the first year of a policy's duration, and it follows that policies which are surrendered after having been in force for one year, or even longer, represent a real loss to the Office. It may be remarked that no Ordinary Office, paying commission, grants surrender values at the end of one year upon such generous terms, even though an Ordinary Office does not have to meet the cost of the services of representatives to collect premiums weekly or monthly as the case may be.

The 1929 Act places the owners of policies to which it has reference in a favoured position compared with the owners of other policies, including policies of a similar type which are not covered by the Act.

STATEMENT IN POLICY AND PREMIUM RECEIPT BOOK

Section 3 (3) of the 1929 Act states that every policy to which the Section applies, and every premium receipt book in respect of such a policy, being a policy or book issued after the 30th September, 1929, shall set out the provisions of Section 3 and of the Schedule to the Act, printed in distinctive type, or, if the Commissioner consents, a statement in lieu thereof approved by him. Non-compliance with these provisions is an offence under the 1923 Act [Section 3 (4) of the 1929 Act]. A statement approved by the Commissioner is given on pages 81 and 82.

METHODS OF CALCULATION PRESCRIBED BY THE COMMISSIONER

On page 8 of the Commissioner's Report for the year 1929 appears a note headed "Method of Calculating Surrender Values and Free Paid-up Policies," which deals with the following points.

(*a*) UNDER THE INDUSTRIAL ASSURANCE ACT, 1923

In Chapter I of this book a scheme is outlined which was devised by Offices for assisting policyowners who, in times of industrial depression, had allowed the premiums under policies to get heavily in arrear. Under whole life policies the arrears were cancelled and an equitable deduction was made from the sum assured.

The Commissioner reported that as a result of correspondence with the Offices an agreement had been reached to the effect that in such cases the "sum assured" for the purpose of Rule 1 of the Fourth Schedule of the 1923 Act was not the original sum assured, but the sum which, at the date of the calculation, would be payable in the event of a claim—that is to say, the reduced sum assured. From this it followed that the surrender value of such a policy was to be obtained by taking 75 per cent of the difference between the present value of the reduced sum assured and the present value of the future net premiums in respect of the original sum assured. The amount of free paid-up policy was to be ascertained from the surrender value in the normal way laid down in the Fourth Schedule to the Act.

Under this method the Offices are recouped to the extent of 75 per cent of the arrears only, and in Chapter VII an endorsement to be placed upon such policies is suggested, which, it is

thought, would protect the Office while being perfectly fair to the policyowner.

(*b*) UNDER THE INDUSTRIAL ASSURANCE AND FRIENDLY SOCIETIES ACT, 1929

(1) As is stated on page 116, the method of calculation of the surrender value of a policy affected by the 1929 Act is first to ascertain the amount of proportionate free paid-up policy and then to take 90 per cent of its present value. The Commissioner points out that there is nothing either in the 1929 Act or in the 1923 Act which requires a surrender value under the former Act to be calculated as at the date of the last payment of premiums, and declares that the use of this date is incorrect. He states that the surrender value must be calculated as at the date it is claimed.

It will be appreciated that the surrender value of a proportionate free paid-up policy increases as the date of maturity is approached, until, immediately prior to maturity, in theory it equals 90 per cent of the amount of the free paid-up policy. It follows that where a policyowner elects to claim a surrender value, and not a free paid-up policy, in respect of a policy on which the premiums are in arrear, the surrender value must be calculated as at the date it is claimed, and this is more favourable to him than a calculation as at the date of the last payment of premiums.

In contradistinction to the above, the reader should note that the Commissioner decided in *re Watkins* v. *Britannic* (see page 120) that in the case of a policy affected by the 1923 Act, the surrender value, for the purposes of Section 32 (2) of that Act, of a policy on which the premiums are in arrear, shall be calculated as at the date in respect of which the last premium was paid.

(2) Some policies are of a complicated character, and the provisions of the Act cannot readily be directly applied. The Commissioner takes as an example a policy which combines an endowment for a comparatively short term of years with an option on the maturity of the endowment to continue the policy for a further term.

When concrete cases arose, the Commissioner, after consultation with the Government Actuary, expressed the opinion that where an endowment is payable after a relatively short term of years of such an amount that, coupled with any payment on earlier death, it is a substantial equivalent for the premiums paid during the term of years, the policy should be treated as an ordinary endowment for the particular term of years and for the benefits payable in respect of that period, the right to continue payment after the term of years has expired for other benefits being treated as a mere option to which no value need be attached.

SUMMARY OF COMMISSIONER'S DECISIONS

The provisions of the Acts in regard to free paid-up policies and surrender values have not given rise to many decisions by the Commissioner, but of the few cases that have been reported that of *Willis* v. *Pearl* (summarized below) is of great importance, since it materially affects the cost of making increases of sums assured under new and revised prospectuses apply retrospectively to existing policies. The important point of distinction is that such retrospective increases are administrative necessities and are not bonuses paid out of divisible profits. It follows from the decision that the values of such policies under the Rules of the Schedule to the 1923 Act, although identical with those of similar policies issued under the new prospectus, are considerably less than they would have been had the Commissioner's decision been otherwise. There is no doubt that Offices which have revised their prospectuses and given increased benefits during the past few years have been materially assisted by the decision.

Willis v. *Pearl*, 1924 E. 115

The case arose following an application for an award of a surrender value under Section 32 (2) of the 1923 Act, when the continued existence of the life assured was in doubt. An important principle was involved, and the matter was argued as a test case.

In 1906 the Company issued a new whole life prospectus, giving larger sums assured for a given premium than under the then existing prospectus. At the same time existing contracts were revised in favour of the policyowners, and it was announced that the sums assured payable under these contracts would be precisely as though the new prospectus had been in operation when the policies were originally effected. The larger sums assured were made retrospective in order to prevent the unprofitable labour of issuing new policies to existing policyowners who might have found it advantageous to drop their existing policies and to take up new ones on the improved terms.

The problem which is involved is the manner in which a surrender value under the 1923 Act is in these circumstances to be calculated.

In the Rules for Valuing Policies given in the Fourth Schedule to the Act, Rule 1 states that the value shall be the difference between the present value of the sum assured, *including any bonus added thereto*, and the present value of the future net premiums. Rule 2 states how the net premium is to be calculated, and that it shall be sufficient to provide for the *risk incurred by the Company or Society in issuing the policy*.

The Company argued that the correct way to calculate the

surrender value was to treat the revised sum assured as the sum assured for the purpose of Rule 1, and also as the sum assured on which to base the net premium under Rule 2.

The alternative was to treat the addition to the sum assured as "bonus" under Rule 1, and to base the net premium under Rule 2 on the original sum assured. This would have given a larger value than by the Company's method, and a larger value than under similar policies issued under the new prospectus. The Company took the view that the alternative method was incorrect, since the addition to the sum assured was not "bonus."

The Commissioner thought that the retrospective additions to the sum assured of existing contracts were not "bonus" within the meaning of Rule 1, and that the words "risk incurred by the Company or Society in issuing the policy" in Rule 2 were not strict enough in form to limit the expression to the actual sum originally assured and to exclude such additions as those under consideration. He, therefore, ruled that the Company was entitled for the purpose of the Schedule to treat the revised sums assured as having been operative at the issue of the policy.

It is important to note, however, that in his Report for the year 1930 (page 13) the Commissioner drew a distinction between the "Willis" case, where the increases in the sums assured had not been made out of accrued profits, but out of estimated future profits, and a case where the increases had been made out of the profits actually disclosed by a valuation. In the latter case the increases were to be regarded as bonus and were to be so treated when calculating free policies and surrender values.

Watkins v. *Britannic*, 1926 E. 82

Where a statutory surrender value has to be calculated, for the purpose of Section 32 (2) of the 1923 Act, of a policy on which the premiums are in arrear at the date of the award, the surrender value should be calculated as at the date in respect of which the last premium was paid.

Graham v. *Royal Liver*, 1929 N.I. 72

Section 3 of the Industrial Assurance Act (Northern Ireland), 1929, is similar to the corresponding Section in the English 1929 Act, and gives the policyowner the right in certain circumstances to claim at his option either a free paid-up policy or a surrender value. In the course of the award it was stated ". . . in my opinion, once a policyholder has made his election under the Section and communicated it to the Society or Company concerned, that election is final and binds him, unless, of course, altered by agreement between the parties."

CHAPTER X

SUBSTITUTION OF POLICIES

SECTION 25 of the Industrial Assurance Act, 1923, introduced a new provision relating to substituted policies, the parallel of which will not be found in any previous legislation. The Section is not very happily drafted and it is more than doubtful whether it properly expresses the intention of those responsible for the drawing-up of the Act. It was the outcome of a recommendation made by the Parmoor Committee under the general heading of "Recommendations on Minor Points," which reads as follows—

SUBSTITUTION OF POLICIES. *Where a policyholder agrees or is persuaded to substitute a new policy for an existing one he should be handed an account, certified by the Head Office, of what he is entitled to receive on the surrender of his former policy and of what he is entitled to under his new policy and also a new policy and a new collecting book.*

The important words in the recommendation are "agrees or is persuaded." The word "agrees" is also introduced in Section 25 itself, and seems to imply that there must be an offer by the Office to issue a substituted policy as well as agreement by the policyowner to accept a new policy in substitution for an existing one.

WHAT IS A SUBSTITUTED POLICY?

The only definition of a substituted policy which has been given any publicity is one which was incorporated by the then Deputy Industrial Assurance Commissioner in his Report on an inspection into the affairs of a Collecting Society in 1926. The definition was as follows—

A substituted policy is a policy which is issued to take the place of another policy then in force or of one which has terminated by forfeiture or otherwise with a view to the issuing of the new policy.

This definition omits any reference to the essential element of agreement, and for reasons which are given in this chapter it is doubtful whether the definition is a correct one. If it is, then not only may the new policy and the old one co-exist for a time, but if a policyowner allows an existing policy to lapse with the intention of effecting a new one at a later date, then the new one, if effected, is a substituted policy. The length of time between the cessation of payment of premiums under the existing policy and the effecting of the new policy is immaterial. The

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intention of the policyowner to effect a new policy does not have to be expressed in any way at the time the existing policy is allowed to lapse, or at any other time, and the agent and the Office would probably be quite unaware of it.

An Office can ascertain only from the facts of the case whether a new policy is in fact a substitution for a terminated policy. In practice it is often difficult to ascertain facts, particularly if a proposal is made for a new policy months after the termination of a previous one. From 1928 onwards the majority of Offices included in their proposals the following question: "Is the policy now applied for to take the place of one in this or any other Office?" but while this served to bring to the notice of officials certain cases to which the section might apply, it was by no means conclusive. If the answer "No" was given when it should have been "Yes," it was a difficult matter to fix the responsibility for the incorrect statement on the policyowner. Because of these practical difficulties most Offices have now adopted the Two-year Automatic Free Paid-up Policy Plan, which is discussed later in this chapter.

The Provisions of Section 25 of the 1923 Act

Subsection (1) of Section 25 provides that as from the 1st January, 1924, an Office, in the case of a substitution, must do one of three things. It must either—

(*a*) pay the surrender value of the old policy,

(*b*) grant a free paid-up policy of equivalent value, or

(*c*) give the new policy an immediate value at least equal to the surrender value of the old policy.

In the last alternative (*c*) the Office is required by subsection (2) to furnish with the new policy and the premium receipt book to be used in connection with it, a statement setting forth the rights of the owner under the section, and containing a certified account showing the surrender value of the old policy and the value of the new policy.

Subsection (3) provides that if a new policy has been issued in substitution for an old policy, and the new policy has been given a value under alternative (*c*) equal to or exceeding the surrender value of the old policy, then for the purpose of determining subsequently *whether* the policyowner has paid premiums for a sufficiently long period to be entitled to a free paid-up policy or surrender value under Section 24, and for this purpose only, the new policy is deemed to have been issued at the date at which the old policy was issued, and premiums are deemed to have been paid on the new policy in respect of the period between that date and the date at which the new policy was actually issued.

The normal way of giving the new policy the required value under alternative (*c*) would be to increase the sum assured or to decrease the amount of premium payable in respect of the new policy by an actuarially appropriate amount. If at some future date the value of the new policy has to be ascertained, Rule 2 (*c*) of the Rules for Valuing Policies comprised in the Fourth Schedule to the Act deals with the case, and prescribes a method of calculation which results in a proper value being given for the new policy to incorporate the combined values of the old and new policies. To obtain this result it is *not* necessary to assume that premiums have been paid from the date of the inception of the old policy, although, as pointed out in the preceding paragraph, the period between the date of issue of the old policy and the date of issue of the new policy has to be added to the period for which premiums have been paid under the new policy in order to ascertain *whether* the policyowner is entitled to a free paid-up policy or surrender value under Section 24.

In order to make the meaning of the subsection quite clear, it is desirable to consider an example, and the particular case has been selected of a new policy issued to take the place of a whole life assurance which was effected a year and a half previously and which, therefore, had no surrender value at the date of the substitution. The new policy would be issued according to the normal Office prospectus, and would incorporate the value of the old policy, which is nil. The effect of the subsection is that on service of a forfeiture notice in respect of the new policy after premiums have been paid thereon for three years and a half, the policyowner could claim a free paid-up policy, since, for the purpose of determining *whether* he is entitled to such a policy, the new policy is deemed to have been issued at the date at which the old policy was issued, and one and a half plus three and a half gives the five years necessary to qualify. The amount of free paid-up policy granted is, however, based upon the value which the new policy has acquired by virtue of its having been paid upon for three and a half years, and it is not given a value corresponding to a period of premium payments of five years. In this case, since the surrender value of the old policy was nil and the new policy was issued under the normal prospectus, Rule 2 (*c*) does not affect the normal method of calculation of the amount of free paid-up policy.

Under the Rules in the Fourth Schedule a policy cannot normally acquire a value until two years' premiums have been paid thereon, and a policy which is substituted for one upon which two years' premiums have *not* been paid is given a normal prospectus sum assured and is subject to normal rules of

calculation. It cannot, therefore, acquire a value until two years' premiums have been paid thereon. These facts are essential features of the Two-year Automatic Free Paid-up Policy Plan, to which reference is made on page 126 *et seq.*

Other Views on the Meaning of Section 25

At the time of the passing of the 1923 Act the view was widely held that Section 25 was intended to safeguard the policyowner who, while paying premiums regularly, was induced by an agent on some false pretext to give up his existing policy and to effect a new one in its place. The agent would presumably derive a financial gain by the transaction, and the policyowner, unless the policy had acquired free policy rights, would lose the benefit of the premiums that had been paid, would get a smaller sum assured per penny premium because of the increased age of the life assured, and might even be refused a policy by reason of physical impairment of the life assured.

The Section was not intended to safeguard the interests of the policyowner who, on getting heavily into arrear with his premium payments, decides to lapse his policy and to re-enter with a new one. If the definition propounded by the Deputy Industrial Assurance Commissioner were correct, practically every case of "lapse and re-entry" would be a case of substitution. The interests of a policyowner who is involved in a transaction of this character are safeguarded by Sections 23 and 24 of the Act, which require the service of a notice before forfeiture, and give the policyowner 28 days in which to pay the amount due, and a year in which to claim a free paid-up policy. There is good reason, therefore, for believing that where a policyowner gets into arrear, receives the statutory forfeiture notice with the accompanying statutory rights, and subsequently effects a new policy, the new policy is not a "substituted" policy within the meaning of the Act.

The important words of subsection (1) of Section 25 of the 1923 Act are: "Where the owner of an industrial assurance policy *agrees* to accept a new policy in substitution therefor . . ." Agreement by the policyowner may be argued to imply an offer by the Office. If there is a mutual agreement to issue a new policy in place of an existing policy, as is indicated on page 122, the Section lays down that one of three things shall be done by the Office, namely—

(1) pay a surrender value,

(2) grant a free paid-up policy, or

(3) allow an increased sum assured or charge a smaller premium on the new policy, so that the value of the new policy

at the outset is at least equal to the surrender value of the old policy.

It will be observed that the Office must give the policyowner some material benefit if the old policy has acquired a value, which, according to the Rules in the Fourth Schedule to the Act, occurs when two years' premiums have been paid. On the other hand, under Section 24, following forfeiture, a value cannot be obtained until after five years' premiums have been paid in the case of a whole life assurance or three years' premiums in the case of a short-term endowment assurance. It follows that where a policy is forfeited under Section 23 and premiums have been paid for too short a time for free policy rights to have been acquired under Section 24, the policyowner can, if the Deputy Commissioner's view is correct, merely by effecting a new policy and paying thereon one weekly or monthly premium only, obtain free policy rights in respect of the old policy. Moreover, under Section 24 (5), the operation of the whole of Section 24 was postponed for a period of five years after the passing of the Act. This was to enable the weaker Offices to build up reserves to meet the additional strain being imposed upon them. The provisions of Section 25, however, came into operation on the 1st January, 1924. The adoption of the Deputy Commissioner's definition of substitution would, therefore, have enabled a policyowner to obtain a free paid-up policy at a much earlier date than the limitation which Section 24 (5) imposed. It does not seem reasonable that the framers of the Act should have protected the Offices under Section 24 and at the same time have left a loophole by means of which the provisions of Section 24 could so easily be circumvented by the policyowner.

Again, there is an important proviso to Section 24 (2), which states that the amount of a free paid-up policy under the Act shall not be more than the difference between the sum assured under the forfeited policy (inclusive of bonus additions) and the amount which would be assured by a corresponding policy at the same premium effected on the life of the same person according to his age next birthday at the date of forfeiture. The proviso was inserted expressly to prevent a policyowner from obtaining an advantage by lapsing and re-entering. It is to be observed that there is no similar proviso in Section 25, and since by the Deputy Commissioner's definition nearly every case of "lapse and re-entry" is a substitution, it follows that the proviso to Section 24 (2), which was intended to afford some protection to the Offices, is inoperative in those cases where it is most needed.

The inconsistencies between Sections 24 and 25, to which reference has been made, are sufficient, it is thought, to rule

out the Deputy Commissioner's definition of substitution as incorrect. However, in view of the ambiguities with which Section 25 is surrounded, Offices have endeavoured to devise means for ensuring that every policyowner entitled to any rights under the Section (whatever interpretation be placed upon its meaning) should be fully protected. The method which has been most generally adopted for this purpose is the Two-year Automatic Free Paid-up Policy Plan.

Two-Year Automatic Free Paid-up Policy Plan

The plan provides that every policyowner who has paid not less than two years' premiums (in the case of two or three Offices one year's premiums), and whose policy lapses (whether Section 25 of the 1923 Act applies or not), has automatically conferred upon him a free paid-up policy for an amount not less than that to which he would be entitled under Section 25, as calculated by the rules given in the Fourth Schedule to the Act.

The plan confers upon the owners of forfeited policies better benefits than those provided under Section 24. For instance, policyowners whose premium payments were under five years' duration but more than two years in the case of adult whole life policies, or under three years but more than two years in the case of endowment assurances for terms of less than twenty-five years, secure free paid-up policies, whereas under Section 24 they would be entitled to nothing. Moreover, the free paid-up policies are granted automatically, and application is not necessary. The better benefits granted impose a heavy financial burden on the Offices, but are to the advantage of policyowners. It must be recognized, however, that the benefits are given to one class of policyowners, namely, those who fail to keep their policies in force. Furthermore, the granting of bonuses and other improved benefits from time to time is made more difficult because of the cost of granting benefits in excess of statutory requirements to policyowners who allow their policies to lapse within a few years of effecting them. The Offices, however, considered that it was preferable to incur expenditure which would benefit policyowners rather than to meet the administrative costs which would have been involved in carrying out Section 25 in accordance with the Commissioner's interpretation of its meaning. The plan has had the effect of terminating the undesirable advantage which those owners of forfeited policies who effected new policies had over those who did not.

An objection to the plan is that Offices tend to accumulate on their books large numbers of small free paid-up policies, which are issued for amounts as small as one shilling, and it is evident

that clerical labour and other expenses must bear a disproportionately large ratio to the amounts involved. Furthermore, there is the possibility that some of these policies will be lost or overlooked, and, consequently, never become claims. In order to minimize the objection, some Offices grant surrender values in respect of free paid-up policies which are for amounts of less than an arbitrary figure, such as £1. The effect of this may be to increase lapses at durations which result in free paid-up policies of amounts below £1. It may also result in the owner of, say, six one-penny policies being able to obtain surrender values on each of his policies, whereas the owner of one sixpenny policy would not be able to do so.

The reader should refer to the Forfeiture Notice reproduced on page 98, and observe the method of procedure under the plan as follows—

Every policy of industrial assurance upon which not less than two years' premiums have been paid (ignoring in the case of Infantile Whole Life policies all premiums paid in respect of complete years of assurance under age 10) upon forfeiture automatically becomes a free paid-up policy. The Company will take steps to issue to the owner of the policy a certificate stating the amount for which such policy has become free. If in any case the owner does not receive such certificate, he will materially assist the Company by communicating with the agent.

Most of the Offices, instead of issuing a certificate, endorse the original policy with the amount of the free paid-up policy. Reference to the Automatic Free Paid-up Policy Clause given in Chapter V (page 60) will show that the policy becomes paid-up not only on forfeiture, but also on discontinuance of premium payments "with the intention of making no further payment." In this manner the policyowner is not deprived of an automatic free paid-up policy, if, through an oversight, a forfeiture notice is not served.

An Alternative Method of Compliance with Section 25

Certain Offices were disinclined to adopt the Automatic Free Paid-up Policy Plan. These Offices had to formulate administrative machinery to ensure compliance with Section 25.

One Office has adopted the following method. It embodies in the proposal form for a new policy where substitution is involved—

(*a*) a request by the proposer for a free paid-up policy in respect of the old policy in cases where premiums have been paid for a sufficient time to permit of a free paid-up policy being claimed on forfeiture under Section 24, and alternatively

(*b*) a request by the proposer for a cash surrender value in cases where premiums have been paid for a shorter time than in (*a*) but for at least two years, together with a request for the surrender value to be applied in payment of premiums in advance on the new policy.

If premiums have not been paid for two years in respect of any forfeited policy, the Office will not accept a proposal for a new assurance until after three months from the date of forfeiture of the old policy. It is assumed, unless there is reason to believe the contrary, that a new policy, issued after the limiting period, is not in substitution for the old policy. The object of this restriction is to discourage lapses within the first two years' duration, to avoid having to notify policyowners of the earlier date at which their rights under Section 24 accrue under the new policy, and to avoid having to make troublesome records of the fact in the books of the Office.

CHAPTER XI

TRANSFERS

SECTION 26 of the 1923 Act provides—

(1) A policyowner shall not, except in the case of amalgamations, be transferred from his present Office to a new Office without his written consent, or, in the case of an infant, without the consent of his parent or guardian.

(2) The consent must be in prescribed form and must have annexed a statement in prescribed form furnished by the new Office setting out the terms of and rights under the existing policy and the terms of and rights under the new policy, and the consideration (if any) paid for the transfer and who is receiving it. (The form of consent and statement annexed is reproduced in Appendix IV.)

(3) The new Office must furnish the policyowner with a copy of the consent which he has signed and of the statement annxed, and must within seven days of the signature give to the old Office notice of the proposed transfer containing full particulars of the name and address of the policyowner and the number of his policy, together with the aforesaid consent and statement.

(4) As from the date of the notice, the old Office shall cease to be under any liability with respect to its policy and shall not be required to serve a forfeiture notice.

The provisions of Section 26 were contained in a modified form in Section 4 of the Collecting Societies and Industrial Assurance Companies Act, 1896.

The section is based upon the principle that a policyowner may always change his Office if he so desires, but in order to protect him from making a bad bargain it requires full particulars of the old and the new policies to be set out side by side, so that he can see exactly what he is giving up and what he is getting in its place. He must also sign a form of consent certifying that he has read the statement of particulars of the policies and fully understands its effect. It will be observed that the policyowner who transfers has no claim whatever on the old Office, which is relieved of all liability from the date of the notice of the transfer given by the new Office in conformity with subsection (3). If the new Office fails to give the notice it commits an offence, but the old Office is not relieved of its liability.

In the early days of industrial assurance it used to happen frequently that an agent leaving the service of one Office and

going to another persuaded many of the policyowners, who were often ignorant people, not caring which "club" they were in, to lapse their existing policies and to effect new ones in the agent's new Office. In fact, some Offices owed their origin to a group of agents bringing their personal business together to form a nucleus. Frequently, this procedure was very much to the disadvantage of the policyowners, who found themselves insured with weak and perhaps disreputable Offices. To-day, however, there are few weak Offices, and this fact, coupled with the generally adopted automatic free paid-up policy plan, has deprived the section of much of its usefulness. Moreover, the agent of an Office in danger of losing business may be relied upon to impress upon a policyowner just how much he would suffer by the proposed transfer. There is between all the important Offices an understanding that existing business of one Office shall not be subjected to interference by the agents of another. Relatively few cases of transfer arise in Office practice at the present time.

The most important legal decision on the subject is found *In re Bell and Another* v. *Harker*, [1928] 1 K.B. 368 (reported, 1927 E. 70). It was held in the Divisional Court that where a person allows a policy with a society to lapse and takes out instead of it a similar policy with another society, a transfer takes place within the contemplation of Section 26 (1) of the 1923 Act, notwithstanding that before the date of the policy with the second society the person already held other policies with that society, or that after that date he continues to hold other policies in the first society, or that before the lapse of the earlier policy the two policies for a time co-exist. This is a comprehensive decision, and although societies only are mentioned, it would be equally applicable to companies. It serves to emphasize that whether a particular case is a transfer or not is a question of fact. If an agent canvassing for new business learns that a policy with another Office will be given up if a new policy is effected with his Office, then the transaction constitutes a transfer and the matter may be carried through only under the conditions of Section 26. If he takes the new business and shuts his eyes to the termination of the policy with the other Office, he is guilty of contravening the Act, and is liable under the terms of Section 39 (3) to a fine not exceeding fifty pounds. Quite clearly, too, a transfer may take place without the knowledge of the agent.

An Office cannot purport to refuse to accept transfers, but, when accepting new business, ignore what happens to policies with another Office. Most Offices include a question in their proposals as follows: "Has any policy held by you in any other company or society been discontinued in consequence of the

proposed assurance, or is any such policy being discontinued? If so, give full particulars." In this way they endeavour to ascertain whether an apparent new proposal is in fact a transfer. It may be that some proposals for new business which should be submitted as transfers pass undetected, but the introduction by the majority of Offices of an automatic free paid-up policy plan ensures that a fair value is received for any policy given up and, generally speaking, no great hardship results to the policyowner.

CHAPTER XII

RECEIPT FOR DOCUMENTS

SECTION 22 of the 1923 Act provides that when an Office or its representative takes possession of a policy or premium receipt book or other document issued in connection with a policy, a receipt shall be given, and the policy, book, or document shall be returned to the owner of the policy within twenty-one days unless the policy has been terminated by reason of satisfaction of all claims capable of arising thereunder. An exception is made where legal proceedings are to be taken against a collector by the Office that issued the policy. In such a circumstance, although a receipt must be given, the Office may retain a document beyond the prescribed limit of twenty-one days if it gives to the owner of the policy a certified true copy of the document retained.

A point of difficulty arises from the necessity of returning the document to the owner of the policy. For example, in practice, it is usually the housewife who deals with the agent, and she may regularly hand over premiums on account of, say, an own life assurance on the life of her son. On a strict interpretation of the Act, the son's policy or other document must be returned to him, and not to his mother. It would be better if the Section were to provide that where a policy or other document is taken a receipt must be given to the person from whom it is taken, and that it must be returned to that person, but in this event provision would have to be made to obviate difficulties which would arise, e.g. in the event of the death of the person before the return of the documents.

It should be noted that a forfeited policy is not considered to be a policy "terminated by reason of satisfaction of all claims capable of arising thereunder," and a receipt must be given and the documents returned. Further, it is not clear that the words "capable of arising thereunder" do not apply to the settlement of a claim where, on account of apparent understatement of age, a deduction has been made from the sum assured, and the claimant is notified that, on proof of age being submitted, payment will be made of any balance due. It is reasonable that in these circumstances the Office should retain the policy and other documents as a settlement has been effected on the facts as then disclosed.

The Section makes no provision for the retention of the policy and other documents by the Office as security for a loan.

Experience has shown that in a considerable proportion of

cases the period of twenty-one days is insufficient, particularly in circumstances such as those which arise in times of trade depression when the Offices, with a desire to prevent lapsing, frequently adopt schemes which entail wholesale endorsement of policies. If the policy or other documents are to be retained for more than twenty-one days, it is not enough merely to issue a second receipt. The documents must be handed back and taken again if the owner so permits.

Strictly speaking, a receipt must be given for any documents of which possession is taken by the representative of the Office, notwithstanding that at the same time payment is being made in settlement of claims. The Commissioner has agreed, however, not to regard as an offence failure to give a receipt in these circumstances.

It has been held by local magistrates that a receipt must be given for documents by the representative who takes them, even if they were not issued by his own Office.

CHAPTER XIII

PAYMENT OF CLAIMS

By far the greater proportion of industrial assurance policies assure sums payable at death only, and this chapter is devoted to a consideration of the payment of death claims. Claims payable on the maturity of pure endowments and endowment assurances are dealt with in a similar manner to claims payable at death, and similar difficulties of title to the policy moneys arise. It may be mentioned that misstatements of age are of less importance than in the case of whole life policies. In the case of pure endowments care must be taken in establishing the identity of the person endowed.

The effort made by the Offices to pay death claims promptly is an outstanding feature of industrial assurance. The procedure involved in paying claims necessarily varies in different Offices and according to the special circumstances of the case. What generally happens is that the agent knows or is informed of the death of the life assured, and, having satisfied himself that the policy is in force, at once has a claim form filled in by the actual claimant. He usually obtains the documents in support of the claim, namely, (1) the policy, (2) premium receipt book (unless it relates also to other policies), (3) a registrar's certificate of death, and (4) all deeds of title (if any), and takes them with the completed claim form to his District Office. A receipt would be given for the policy and premium receipt book in accordance with Section 22 of the 1923 Act.

In view of the difficulties of Section 22, some Offices do not permit their agents to take away documents until the claim is settled, and in such cases the agent's duty would be confined to making copies of the essential particulars of the policy and premium receipt book on forms supplied by the Office for that purpose.

If all the documents are in order and the title clear, the district manager (or superintendent, as he is sometimes called) is generally empowered to make immediate payment, but if any points of difficulty appear it is his duty to forward the documents to his Head Office and to await instructions. Also in *all* cases of claims arising within a specified period (say two years) after the inception of the policy, he may be required to forward the documents to his Head Office.

A specimen form to be completed in connection with a claim by death is given on pages 136 and 137.

The reader will observe the numerous questions which the claimant has to answer. Most of these questions are interrelated, and have a bearing upon the important matter of title. However, they are only important when the policy is "own life" or when some person other than the proposer claims under a "life of another" policy. Relatively few industrial policyowners leave estates exceeding £100, and it is therefore unusual to find that a grant of representation has been obtained; but claims are often made under unproved wills, and in these cases it devolves upon the Office to endeavour to pay the right person as soon as possible and at the same time to take proper steps for its own protection to preclude the payment of a claim a second time.

It is commonly believed by holders of industrial assurance policies that the title to a policy passes by mere delivery. This belief is quite incorrect, but it frequently leads to the payment of premiums by persons who can have no legal claim when the life assured dies. Disappointment follows when their title is questioned and delay in payment ensues. The mere payment of premiums does not give a lien on the policy moneys, even for the premiums paid. In industrial assurance such a lien is generally created only where the premiums are paid at the request of the legal owner of the policy.

Payment Under a Will

Where the deceased has left a will (see Question 5 on the claim form) the question of title is simplified. If executors have been appointed and have proved the will the claim will be discharged on their joint signatures, though any one of them is, strictly speaking, in a position to grant a valid discharge.

The Office will not necessarily delay payment of the claim until this formality has been complied with, and it may endeavour to carry out the terms of the will by paying the beneficiary named therein with the consent of the executor appointed in the will; but it will do so only in cases where it seems unlikely that the total estate will realize £100 or over.

As a will is revoked by the subsequent marriage of the testator, care should be taken to see that he has not married since making the will.

Payment where there is no Will

Where the deceased has left no will and letters of administration have been taken out, payment will be made to the administrator. If letters of administration have not been taken out and the policy is own life in form, payment will be made, if possible, to the next of kin. Questions (6) to (10) on the claim

CLAIM FORM (DEATH)

This form must be correctly filled up and sent to the District Office together with (1) the Policy, (2) a Registrar's Certificate of Death, and (3) all Deeds of Title.

Division.....*Agency No*.....*Agent*.....

District.....*District Manager*.....

Name of Deceased.....Age at Death.....

			AMOUNT OF CLAIM		
			£	s.	d.
Policy No.....					
Date Policy issued.....19.....	Duration of Policy	Sum Assured .			
Date of Death.....19.....	.....years.....months	Bonus (if any)			
Cause of Death as per Certificate		TOTAL . .			

Questions to be answered by the Claimant

Full Name .....
and
Postal Address .....

.....

(1) Have you attained the age of 21 years? .....
(2) What relation are you to the Deceased? .....
(3) Is the Policy assigned to you? .....
(4) Did you effect this Assurance on the Deceased's life, and have you paid the whole of the Premiums? .....
(5) Has the Deceased left a Will? .....
(6) Was the Deceased Married? .....
(7) Was the Deceased a Widow or Widower? .....
(8) Has the Deceased left any chidren? If so, state number of sons and number of daughters. (If none, state none.) .....sons .....daughters
(9) Is the Deceased's Father living? .....
(10) Is the Deceased's Mother living? .....

I claim the moneys due and payable under the above Policy, and I hereby declare the answers to the above questions to be true.

Dated the.....day of.....19.....

Claimant's Signature.....

I hereby Certify that this Policy is in force and that all Premiums are paid up to and including the date of death and that to the best of my knowledge and belief the person described in the attached Registrar's Certificate of Death is the person described in the Policy.

.....Agent

This Claim appears to me to be.....and I recommend
(*fill in "satisfactory" or "unsatisfactory"*)

that it be.....
(*fill in "paid" or "not paid"*)

.....District Manager

form are designed to enable the Office to ascertain who is the next of kin. If the deceased was married, and died leaving a widow or widower, then the widow or widower as next of kin is generally entitled to the policy moneys. If the deceased is a widow or widower leaving children, then the children will be the next of kin. It should be noted that in every case where from the circumstances it seems likely that the estate will realize £100 (approximately), payment will be delayed until the necessary steps have been taken to obtain the requisite grant of probate.

Payment under a Nomination

Members of collecting societies who have attained the age of 16 have the power under Section 56 (1) of the Friendly Societies Act, 1896, to nominate a person to whom any sum of money payable by the society on the death of the member, but not exceeding £100, shall be paid on his decease. The nomination must be in writing under the hand of the member, and must be delivered at or sent to the registered office of the society, or it must be made in a book kept at the office.

The person nominated must not be an officer or servant of the society, unless (s)he is the husband, wife, father, mother, child, brother, sister, nephew or niece of the nominator [Section 56 (3)].

A nomination may be revoked and varied by any similar document under the hand of the nominator, delivered, sent, or made as aforesaid [Section 56 (4)].

The marriage of the member operates to revoke any existing nomination [Section 56 (5)].

On satisfactory proof of death the society must pay the nominee the amount due, not exceeding £100, and the receipt of a nominee over the age of 16 forms a valid discharge [Section 57 (1) and (2)].

If the total sum in respect of which a nomination may be made, after deducting sums payable under the rules or otherwise for the purpose of defraying funeral expenses, exceeds £80, then before making any payment the society must require production of a duly stamped receipt for the succession or legacy duty payable thereon, or a letter or certificate from the Commissioners of Inland Revenue stating that no such duty is payable [Section 57 (3)]. This is to prevent frauds on the Inland Revenue.

If money is paid to a nominee in ignorance of a marriage subsequent to the nomination, the receipt of the nominee is a valid discharge [Section 60 (2)].

In *Caddick* v. *Highton* (1899), 68 L.J.Q.B. 281, it was held that where a nomination has been made and not revoked, and the nominee has died in the lifetime of the nominator, the legal

personal representative of the nominee is entitled upon the death of the nominator to receive the policy moneys from the society. The Industrial Assurance Commissioner does not agree with this decision, and he held very definitely in the case of *Bold* v. *Liverpool Victoria* (1924, E. 106) that a nomination lapses on the death of the nominee before the nominator.

It should be observed that a member may by nomination dispose of money payable on his own death only. It follows, therefore, that money payable on the maturity of an endowment assurance or on the death of the life assured under a life of another policy cannot be the subject of nomination.

It should not be thought that nomination and assignment are the same thing. An assignee is in a better position than a nominee, as a nomination may be revoked or varied by the nominator at any time, and is automatically revoked by marriage. In the opinion of the Commissioner, moreover, a nomination is revoked by the death of the nominee before that of the nominator. These features are not present in assignments.

The power of nomination which is possessed by members of collecting societies is not possessed by policyowners in industrial assurance companies.

Claim by Person not Legally Entitled

It not infrequently happens that premiums have been paid by a person other than the legal owner. When the life assured dies this person produces the policy and premium receipt book and claims the policy moneys. If the policy is an "own life" assurance, inquiries will be made to ascertain the circumstances in which the claimant commenced paying premiums, and the answer to this question will generally enable the Office to decide whether or not the claim may be safely paid to this person. It may be that the premiums were paid at the request of the original owner, in which case the claimant would have a lien for premiums paid which might amount to the sum assured or a substantial part of it; or perhaps, as very frequently happens, the claimant is willing to discharge the undertaker's account and to allow the Office to retain this document against the payment of the claim. Even where this item has been met from another source, very little difficulty is experienced in dealing with these claims if circumstances are explained to the joint legal personal representatives of the assured and their consent obtained to the payment of the claim to the payer of the premiums.

Rather more difficulty is sometimes experienced where the proposer of a "life of another" policy is deceased and a claim is presented on the death of the life assured by a person who has

paid the premiums since the proposer's death. Normally such a person would be a near relative of the proposer and may have paid the premiums with or without the consent of the personal representatives of the proposer. Considerable tact is necessary in dealing with such cases, and the attitude of the various parties who may have rights in the matter should be ascertained before any attempt is made to obtain their joint signatures. Each claim requires individual attention, according to the circumstances of the case, and all such claims will, therefore, be referred to the Head Office for instructions.

In order to protect the Office and to facilitate the rapid payment of claims, it is usual for a policy to contain a "da Costa" or "Blood Relative" clause (see page 61), which provides that a receipt for the sum assured, signed by any person being either an executor or administrator or the husband or wife or a relation by blood or a connection by marriage of the assured, shall be a full and complete discharge to the Office. A reference to the cases decided by the Commissioner *re Worral* v. *Prudential* and *re Yardley* v. *Pearl* (see page 150) will show that payments made under the "da Costa" clause must be made *bona fide*, and an Office is not necessarily fully protected if it has a receipt for the sum assured signed by one of the persons specified above.

In 1934 an important case was heard in the Court of Appeal on the general validity of the "da Costa" clause. This was *O'Reilly* v. *Prudential*, [1934] 1 Ch. 519, and was an appeal from a judgment of Clauson, J., on an award by the Commissioner in the form of a special case. The Company had issued three policies for sums totalling £45 and each policy provided for payment of the sum assured to the executors or administrators of the life assured, but with a "da Costa" clause proviso in the form set out on page 61.

The life assured died leaving a will, under which all her property, which included the policy moneys, was left to her child, Brenda O'Reilly. After the death, a niece of the life assured claimed payment by the Company of the policy moneys and produced the policies, together with a letter, signed by the deceased, stating that she was assured in the Company for about £50 and expressing her wishes that after payment of her debts, her clothes and remaining money should go to her niece. The Company was in ignorance of the will and paid the policy moneys in good faith to the niece, taking from her a receipt, which was expressed to be in full discharge of all her claims under the policies. Some time later letters of administration were granted to Mrs. O'Reilly and, in her capacity of administratrix, she claimed from the

Company the policy moneys due, less the sum expended on the life assured's funeral expenses.

The Court of Appeal held (affirming the judgment of Clauson, J.)—

(1) that the proviso was not repugnant to the covenant to pay to the executors or administrators of the life assured but formed an integral part of the contract and qualified the covenant;

(2) that the exclusive rights of the administratrix to receive and give a discharge for the policy moneys was subject to the terms of the contract entered into by the life assured; and

(3) that the receipt from the niece operated as a valid discharge to the Company, so that the claim of the administratrix failed.

It should perhaps be mentioned that Romer and Maugham, L.JJ., doubted whether the Company could have taken advantage of the proviso if they had made payment to someone other than the executors or administrators at a time when they knew that there were executors or administrators in existence and that Maugham, L.J., doubted whether the Company could take advantage of the proviso if they knew that the estate of the life assured was large enough to be liable for estate duty.

Collecting societies may pay, under the provisions of Section 60 of the Friendly Societies Act, 1896, the person who at the time appears to a majority of the trustees to be entitled to receive payment.

Lost Policies

Offices are frequently asked to meet claims in cases where the policy has been lost. In such circumstances it is customary to delay payment until a thorough search has been made for the missing document. If it is still not found, before making payment the Office would probably require the claimant to make a declaration on the lines shown on page 142.

Reference of Claim Disputes to the Commissioner by the Offices, under Section 32 (1) of the 1923 Act

Section 32 (1) of the 1923 Act is considered in Chapter XV. Generally speaking, it is the policyowner who takes advantage of the provisions of the Section, but it must be remembered that the Office also has the right to refer disputes to the Commissioner. This right is exceedingly valuable in claims settlements where the title is very involved and where there may be several claimants. An award by the Commissioner enables the Office to obtain a satisfactory discharge.

I,.....

of.....

the legal owner of the undermentioned Policy, having made a most thorough and prolonged search, do solemnly and truthfully declare—

1. That the said Policy is lost and all trace of it gone.
2. That I have never at any time assigned or deposited it as security, or otherwise dealt with it.
3. That I have never been bankrupt, or made any composition with creditors.

I hereby undertake to indemnify the Company against all claims by third parties made on them in respect of the original Policy. Should such Policy subsequently be found, I undertake to forward it to the Head Office of the Company at once.

PARTICULARS OF POLICY ABOVE REFERRED TO

No.	Name of Assured	Name of Life Assured	Premium	Agent

Witness..... Signed.....

District..... Date.....19.....

ADJUSTMENTS FOR ERRORS OF AGE

In what follows it should be understood that an Office can call for proof of age only if the policy conditions enable it to do so. If they do not, then the onus of proof of any misstatement in age on the proposal is on the Office.

The age at death shown on the registrar's death certificate is not evidence of age, but when the documents relating to a claim are received the age on the death certificate is compared with that on the proposal. If there is consistency the Office will generally be satisfied and will not require proof of age, since in view of the smallness of the sums assured under industrial policies, the relatively high cost of obtaining a copy of the birth certificate and the fact that so frequently the date and place of birth of the life assured are not known, it is hardly worth while to require proof of age unless the Office has reason to suspect a misstatement. Practice varies, but some Offices allow a certain latitude in the matter of age and will not query cases where there is a discrepancy of one or two years. Policies of long

duration, or policies where an amount in excess of the sum assured has been paid in premiums, are treated more generously in this respect than are other policies. A discrepancy of any magnitude generally results in the Office making further inquiries, but the payment of the claim is not held up on that account.

Under the proviso to Section 20 (4) of the 1923 Act, authority is given to the Office to adjust the sum assured if the proposal contains a misstatement as to the age of the life assured. If the age at entry appears to have been understated, the sum assured under the policy is reduced to that sum assured which would have been assured if the presumed correct age of the person had been originally inserted in the proposal. It is the practice of most Offices in these circumstances to advise the district manager, and the claimant direct, that if reliable evidence of age is produced any balance due will be paid. In cases where it appears that the age at entry was overstated it is usual for the Office to pay the sum assured stated in the policy and to advise the district manager, and the claimant direct, that if reliable evidence of age is produced any further amount of sum assured due will be paid, so that the total amount paid will be equal to the sum assured which would have been payable if the correct age had been originally inserted in the proposal.

Understatement of age is far more frequent than overstatement. This presumably is the psychological effect of the fact that as the age at entry increases the sum assured per penny premium decreases. It is interesting to note that in the Census Returns persons show a preference for giving ages ending in 0 or 5, and there is a tendency for women to understate their ages and for old people to overstate them. It would clearly be preferable if proposers for industrial assurances were in every case to produce evidence of age at the time of making their proposals, but this is impracticable. The vast majority of claims are paid without evidence of age being produced.

Evidence of Age

When the claimant is called upon to furnish evidence of the correct age of the deceased, various sources are open to him, the most satisfactory being (1) Certificate of Birth, (2) Certificate of Baptism.

(1) **Certificate of Birth.** Compulsory registration of births has been in existence in

(*a*) Scotland since 1st January, 1855.
(*b*) Ireland since 1st January, 1864.
(*c*) England and Wales since 1st January, 1874.

Although it appears from this that registrations have been

enforced in England and Wales for a shorter period than in either of the other two countries, it should be mentioned that in England and Wales facilities for registration have existed since 1st July, 1837, and it has been estimated that 95 per cent of the births in the years 1837–1873 were registered.

(2) **Certificate of Baptism.** This frequently gives the date of birth. If it does not do so it is of no real value as evidence of age unless the baptism was in the Roman Catholic Church. In this denomination baptisms invariably take place within a few days following the birth, and therefore one of its baptismal certificates is as reliable as a certificate of birth. Moreover it is cheaper, and in certain districts is available for dates prior to the compulsory registration of births.

Among the other evidence which will sometimes be accepted by the Office may be mentioned—

(3) **Pension Records.** A certificate can be obtained from the Old Age Pensions Officer stating the date on which, for the purpose of payment of the old age pension, the pensioner was assumed to have attained the age of 70 years or 65 years, as the case may be.

(4) **Family Bible Records.** It used to be the custom in some families for the parents to enter the dates of birth of their children in the Family Bible. The Office would no doubt rely on the report of an official that he had verified the date of birth therefrom.

(5) **Statutory Declarations.** These can be justified only in exceptional circumstances and only as a last resort. The declaration would be made by a friend or relative of the deceased, who would testify as to the age of the deceased. He may be able to do so from various circumstances in their joint lives—they may have been in the same class at school, or he may remember the difference in their ages.

If the deceased was a married women then a marriage certificate should accompany the evidence of age in order to establish identity, but the age on the marriage certificate is valueless as proof of age.

Evidence of Cause of Death

Neither a coroner's inquisition nor a death certificate can be accepted in Court as evidence of cause of death. The leading cases are examined by the Commissioner in *Jarvis* v. *Pearl* (1927 E. 6), particularly the case of *Bird* v. *Keep*, [1918] 2 K.B. 692. Apparently the evidence of the medical attendant would be necessary.

Notification of Payment

Offices take appropriate steps to ensure that claimants actually receive the amounts due to them. One or two Offices notify the claimants independently by letter in every case, whether the claim is a straightforward one paid by the District Office or not. As has already been mentioned, most Offices notify claimants where there is an apparent misstatement of age on the proposal form, even if they do not do so in straightforward cases.

Arrears of Premium

Apart from deductions from the sum assured on account of understatement of age, there may be a deduction on account of arrears of premium at the date of death on the particular policy or policies in question. In this connection Section 27 of the 1923 Act provides that where a claim is paid, no deductions shall be made on account of arrears of premiums due *under any other policy*. This restriction is designed to prevent unauthorized deductions by the agent and to prevent the payment of arrears under other policies being made a condition of the payment of a claim. The Commissioner for Northern Ireland held in *Morelli* v. *Refuge* (see page 151) that a claimant may not in any circumstances contract out of the Section by giving a general consent to such deductions being made. This decision, while no doubt sound law, is undesirable in its practical effect, and the English Commissioner has suggested to the Departmental Committee of 1931 that words should be added to the Section permitting such deductions to be made with the consent in writing of the policy-owner, and stipulating that the payment of any premiums due under any other policy shall not be made a condition of the payment of any claim.

Indisputability of Policies

A proposal is usually filled up wholly or partly by the agent, and, where this is so, Section 20 (4) prohibits an Office from questioning the validity of a policy on the ground of any misstatement contained in the proposal, other than a fraudulent misstatement in some material particular, unless it can prove that the proposer has made a misstatement relating to the state of health of the life assured at the date of the proposal, and unless it raises the question within two years of the date of issue of the policy. After the period of two years has expired the Office can dispute the policy *only* if it can prove that the proposer has made a fraudulent statement in some material particular.

Fraud involves proving that the proposer had intent to defraud and that—

(1) he knew of the misstatement, and made it wilfully, or
(2) he made the misstatement recklessly or carelessly, i.e. not caring whether it was true or false,

and in practice these are generally incapable of proof.

If follows, therefore, that industrial assurance claims are virtually indisputable after two years' duration, and even during that period may be disputed only on the grounds of health mentioned above.

In the case of *Hayes* v. *Royal London* (1938, but not reported) the Deputy Commissioner held that where a policy was forfeited and subsequently revived on the application of the policyowner, the application for revival constituted a fresh proposal and where it contained a warranty as to the state of health of the life assured at the date of the application, the two years should run from the date of the acceptance by the Society of the offer to revive the policy.

The effect of the subsection is virtually to destroy the value of any warranties given in the proposal except the warranty as to the health of the life assured at the date of the proposal. It may be mentioned, however, that the Office may resist a claim on the grounds of non-disclosure, but the Commissioner has held in *Parker* v. *Salvation Army* (1928 E. 25) that such non-disclosure must be fraudulent and must be in respect of a material fact.

Payment on the Death of a Child under Age 10

With the modification that the amounts which may be insured or paid on the death of a child were not to exceed £6, £10, or £15, according as the death occurred before age 3, 6, or 10 respectively, Section 4 (1) of the 1923 Act extended the provision of Sections 62 and 64 to 67 of the Friendly Societies Act, 1896, to industrial assurance companies. Previously the limits had been £6 and £10 according as the death occurred before age 5 or 10 respectively.

It was not until the Friendly Societies Act, 1924, that the increased limits were applied to collecting societies. Section 2 (1) of that Act modifies Section 62 of the Friendly Societies Act, 1896, both as originally enacted, and as applied to trade unions and industrial assurance companies (the latter by Section 4 (1) of the 1923 Act).

The position now is that an Office may not insure or pay on the death of a child under specified ages any sum of money which exceeds or which when added to any amount payable on the death of that child by any other Office or by any friendly

society or trade union exceeds the amounts specified, that is to say—

(*a*) In the case of a child under 3 years of age, £ 6
(*b*) ,, ,, ,, ,, 6 ,, ,, £10
(*c*) ,, ,, ,, ,, 10 ,, ,, £15

In order to prevent payment being made on the death of a child in excess of the prescribed limits, the claimant is required to produce a certificate of death of prescribed form issued for the special purpose by the registrar of deaths.

When application is made to the registrar of deaths for a certificate, the applicant must state the name of the Office concerned and the amount of sum assured claimed. At the foot of the certificate is printed the following—

To be produced to the.....said to be liable for the payment of the sum of £.....

and the registrar fills in the name of the Office and the amount of the policy moneys claimed respectively in the spaces provided. All certificates of the same death must be numbered in consecutive order.

The registrar may not issue any one or more certificates of death for the payment in the whole of an amount exceeding the limits referred to above, and he may not issue a certificate unless satisfactory evidence of the cause of death has been produced.

Section 4 (2) of the 1923 Act provides, *inter alia*, that an Office shall pay only upon production by the claimant of a registrar's certificate of death, and since the registrar may not issue certificates for a total amount greater than the statutory limits, it follows that the Offices cannot pay claims for an amount in excess of the statutory limits.

Section 4 (2) of the 1923 Act also provides that an Office shall pay the policy moneys on the death of a child under 10 years of age only to the person who took out the policy on the life of the child, being the parent, grandparent, brother, or sister of the child, or to the personal representative of that person. The subsection further provides that where there is no personal representative of the person who took out the policy, the payment may be made to such one of the next of kin of that person as proves that he has defrayed, or understakes to defray, the funeral expenses of the child.

Section 2 of the 1929 Act provides that in calculating the maximum sum which may be insured or paid on the death of a child under 10 years of age, no account shall be taken of any repayment of the whole or any part of the premiums paid in respect of any endowment policy, and that the recipients of the

repayment shall not be limited to the relationships set out in Section 4 (2) of the 1923 Act, referred to above, nor shall the production of the special certificate of a registrar of deaths be required.

The provisions of Section 4 of the 1923 Act apply also to policies on the lives of children under age 10, issued in the Ordinary Branch of an Industrial Assurance Company.

Payment when Continued Existence of Life Assured is in Doubt

It occasionally happens that the person whose life is assured disappears and his whereabouts are unknown to the person who effected the policy and who is paying the premiums. This is an unsatisfactory state of affairs for the following reasons—

1. The purpose for which the policy was effected, namely, the defraying of funeral expenses in connection with the death of the life assured, has presumably ceased to exist.

2. The person who effected the policy will not wish to continue the payment of premiums when he has no reasonable prospect of being able to prove the death of the life assured and to substantiate a claim.

3. The Office does not wish to continue to accept premiums in respect of a contract which is unlikely to be satisfactorily terminated by a payment on death.

Section 32 (2) of the 1923 Act provides that in any case where a doubt arises as to the continued existence of the life assured, the Commissioner may, on the application of the owner of the policy or of the Office which issued the policy, award that the Office shall pay to the owner of the policy the surrender value thereof at the time of the award, and the award shall be a discharge for all claims by or against the Office in connection with the policy.

The result of such award is that the policyowner receives a fair value for the policy, and the Office has a proper discharge which is full protection against its being called upon to pay the policy moneys on the death of the life assured should he subsequently have reappeared.

The subsection also enables the Office to get a discharge in "own life" cases, because by freely interpreting the expression "owner of the policy," the Commissioner decides to whom the surrender value should be paid.

It should be noted that the Commissioner has no power under the subsection to presume the death of the life assured. Only the High Court can do that, but an application to the Court for an order normally involves some expense, and, unless the

value of the policy, or policies, is considerable, would not be undertaken.

SUMMARY OF COMMISSIONERS' DECISIONS

Attainment of Age 10 by a Child

Dalton v. *Wesleyan & General*, 1926 E. 33

The plaintiff claimed £21, the full sum assured and bonus, on the death of his child, who was born on the 9th November, 1915, and died at 10 p.m. on the 8th November, 1925.

The Office did not wish to dispute the claim, but feared lest it might be committing a breach of the Friendly Societies Act, 1924, if it paid more than £15 on the death of the child in the circumstances, and desired an award of the Commissioner.

The Commissioner was of opinion that the child had attained the age of 10 at its death, and held that *a child attains 10 years of age on the day before the 10th anniversary of its birth.*

Payment on Forged Authority

Walsh v. *Royal London*, 1925 E. 23

The wife of a proposer signed "for and on behalf of" the proposer, under an authority purporting to have been signed by the proposer, which afterwards turned out to be a forgery, a receipt for the sum assured made out in the name of the proposer. The company paid in good faith, and refused to pay the proposer's subsequent claim on the ground that they were protected by a clause in the policy providing that the production of a receipt in settlement signed by, *inter alios*, "a connection by marriage" of the proposer should be final and conclusive evidence of payment to the person entitled.

The Commissioner held—

(1) That a wife was not a "connection by marriage" of the proposer within the meaning of the clause (which did not include payment to the wife of a policyowner), and

(2) That, even if she had been, the receipt was not signed by her within the meaning of the clause (the wife signed not as giving a receipt for the policy moneys herself, but for and on behalf of her husband).

(3) That where a wife living with her husband receives from him sufficient funds to meet the premiums on a policy belonging to him and also earns a substantial sum herself, the presumption is that the premiums were paid out of his money and not out of hers.

The Commissioner awarded payment of the sum assured to the husband, although a like amount had already been paid in good faith to the wife.

PAYMENT UNDER "DA COSTA" CLAUSE MUST BE MADE BONA FIDE

Worral v. *Prudential*, 1924 E. 109

Thomas, a son of the assured, claimed the sums assured under three policies as administrator of the estate of the assured.

John, another son of the assured, had previously produced to the Company the documents of title and been paid the amounts assured in accordance with the conditions of the policies, and the Company obtained his receipt. The policies provided that the Company should pay the executors or administrators of the assured, but each policy contained a "da Costa" clause (see Chapter V).

The Commissioner found that the Company made payment in good faith in accordance with the conditions of the policy. There was no administrator at the time of payment, as letters of administration were not taken out by the son Thomas until three months after the claim had been paid. The case was dismissed.

Yardley v. *Pearl*, 1926 E. 36

The policy contained a "da Costa" clause. There were several next of kin, and, without their prior consent, the Company accepted the receipt of Clement A. Yardley, one of the next of kin, and Mrs. Moore, a person who they knew was not legally entitled to the sum assured under the policy, and payment was actually made to the latter. The deceased had lodged with Mrs. Moore, and at his death she was in possession of the policy and premium receipt book. Mrs. Moore alleged that she had paid nearly all the premiums, but this was unsupported by evidence. She had no legal title, and even if she had an equitable title it would not have justified payment of the sum assured to her, since the amount of premiums paid by her could not have been as large as the sum assured.

The Commissioner was unable to hold that the Company had paid the money in good faith under the clause, and awarded payment of seven-eighths of the sum assured to the other seven next of kin. He held as follows—

That the Company were not protected where the receipt was signed by a relative by blood of the proposer and by a person who was, to the knowledge of the Company, not legally entitled to the sum payable under the policy, and payment was made to the latter.

ADMISSION OF VALIDITY OF CLAIM BY AGENT

Geary v. *Royal London*, 1925 E. 21

A claim for £32 8s. sum assured was made to the superintendent, who apparently had an unrestricted authority to pay claims.

The documents appeared to him to be in order and, as he had not the cash to pay the full amount of the claim, he paid £4 on account and obtained a receipt therefor. When the papers reached Head Office the proposal was compared with the death certificate, and as a result of the comparison the Society were not satisfied as to the statements regarding health on the proposal and refused to pay the claim.

The Commissioner held that the superintendent, as agent for the Society, had bound the Society to admit the claim, and awarded payment of the balance of the sum assured. He also laid down the following—

Where an agent of a Company who has ostensible authority to settle claims admits the validity of a claim, it cannot be afterwards questioned by the Company.

Claim Barred by Prior Accord and Satisfaction

Dunne v. *Nation Life*, 1930 N.I. 53; and *McCluskey* v. *Catholic Life and General*, 1930 N.I. 59

In both these cases the claimants had signed receipts for amounts less than the full sum assured in full discharge and settlement. The claims to the full sums assured had been resisted by the Companies on the ground that the lives assured were in ill health when the policies were effected. In both cases the Commissioner for Northern Ireland found that the claimants were well aware of what they were doing when they signed the receipts, and held that they were barred from making further claims.

Deduction of Premiums under Other Policies a Statutory Provision Incapable of Waiver

Morelli v. *Refuge*, 1930 N.I. 61

In paying a claim under two policies the agent deducted arrears in respect of other family business, in addition to the arrears on the policies which had become claims. The claimant at the time gave her consent generally to such deductions being made.

The Commissioner for Northern Ireland held that Section 27 of the 1923 Act confers a right or privilege as a matter of public policy, and that such a right cannot be waived. But also the words of the section are mandatory—"no deductions shall be made"—and in the face of this clear prohibition he considered that no consent or agreement on the part of the claimant could cure a deduction of its illegality. He therefore awarded that the

arrears on other family business wrongfully deducted by the Company should be paid to the claimant.

Interest Payable Only when Office in Default

Wills & Dickin v. *Prudential*, 1930 E. 40

The life assured died in January, 1915, and shortly afterwards a claim was made for the sums assured under three policies. The claimant could not produce the policies and the Company refused to pay his claim.

Another claimant in 1929 produced a will of the life assured, and probate was granted in November, 1929. She claimed the sums assured with interest from the date of death.

The Commissioner held that interest, which was only payable by virtue of Section 29 of the Civil Procedure Act, 1833, was in the nature of damages, and was therefore payable only if the Company had made default in payment. There had been no such default, and he awarded the sums assured without interest.

Liquidation of Undertaker's Account Good Discharge Only to Extent to which Account Bona Fide

Lemon v. *City of Glasgow*, 1930 N.I. 64

The Society paid the full sum assured of £25 8s. to the undertaker against his receipt. Evidence showed that the undertaker's real account was only £16, and that a third party, who had no right to obtain payment direct from the Society of any part of the policy moneys, had procured the undertaker's receipt for the full amount payable in order that she might capture the balance left after the actual sum due for the funeral had been satisfied.

The Commissioner for Northern Ireland thought that £16 was a reasonable figure for the deceased's funeral expenses, and held that the Society was still liable under the policy for the balance of the policy moneys.

Claim not Barred by Felonious Death of Life Assured where Person Claiming has Independent Title

Podmore v. *Tunstall & District*, 1930 E. 38

The claimant claimed in respect of a policy which she had effected on the life of her son, who was executed for murder.

The Commissioner held that although it is contrary to public policy that the sum assured on the life of a person who dies at the hands of justice should be paid to anyone claiming under or through such person, there is no such objection to payment to a person claiming under an independent title.

ACCEPTANCE OF PORTION OF POLICY MONEYS NOT NECESSARILY BINDING AS FINAL SETTLEMENT

Lavery v. *Northern Counties*, 1931 N.I. 64

In the proposal, which was filled in by the agent, the answer "Yes" was given to the question "Is the proposed in good health and of temperate habits?" The life assured died after the policy had been in force for two years and eight months, and no question as to a misstatement on the proposal form was raised until after his death. As no question was raised within the period of two years mentioned in proviso (*b*) to subsection 4 of Section 20, the provisions of the said subsection, except for the proviso, applied, and the Company was not entitled to question the validity of the policy unless a fraudulent misstatement in some material particular had been made by the proposer.

When the claim was presented to the Company, it appeared from the death certificate that the certified duration of illness was five years, and the Company took the view that the life assured was not in good health when the proposal was signed. The Company did not at any time suggest that there had been a fraudulent misstatement, but offered the sum of £7 "in full and final discharge" instead of the full sum assured of £11 8s. The claimant, who had no clear appreciation of the legal position, accepted the sum offered and gave a receipt for it.

The Commissioner for Northern Ireland considered that it would not be in accordance with either law or equity to hold the claimant bound by the receipt, and he awarded the balance of the policy moneys to the claimant.

CHAPTER XIV

ALLOCATION OF PROFITS TO POLICYOWNERS

THIS chapter is devoted to a description of the various bonus systems now in operation, and to the considerations which first influenced Offices to allocate to their industrial branch policyowners a share in the profits of that branch, notwithstanding the fact that the contracts were non-profit contracts and that the policyowners had no legal claim to a share in any profits.

With-profit policies have been a feature of ordinary life assurance from very early times, and it is interesting to trace the circumstances in which they were first issued. The data on which Life Office premiums were based were extremely scanty, and those responsible for the conduct of the business endeavoured to ensure that the premiums charged were adequate. They proved, in fact, to be far more than adequate, and in a very short time substantial surpluses were disclosed. The earliest Offices were mutual in character, and as a consequence these surpluses were distributed among the members, i.e. the policyowners.

Proprietary Offices were soon formed to conduct life assurance as a business enterprise, and by force of competition had either to give to their policyowners a share in the profits, or to quote premiums on a scale lower than that of those Offices which gave profits.

Profits were unstable and were not guaranteed, with the result that a demand was created for a type of policy which should give the largest possible guaranteed sum assured for a low rate of premium. In this manner it came about that even in the same Office policies were offered either with or without participation in profits.

In industrial life assurance this admission of policyowners to a share in the profits is of much more recent date, and for reasons which are not far to seek. In the first place, the Offices transacting the business have not been so long established as have the majority of the purely Ordinary Offices. Many of the former are proprietary in character, and in these the profits belong as a rule to the shareholders, in accordance with the constitution of the Office.

Once the business of industrial life assurance was started its growth was rapid. New business expenses are, relative to the premiums charged, heavier than in ordinary life assurance, and in view of these heavy expenses, and the expense incurred in providing for the collection of the premiums at the homes of

the policyowners, the building-up of adequate reserves was a slow process. Until this was done no well-managed Office could consider the distribution of profits among its industrial branch policyowners, an act which, it should be noted, would be in the nature of a concession. Moreover, it was felt by some Offices that the labour and expense involved in giving small bonuses to a very large number of policyowners could hardly be justified by results, and that in any case the amounts would be too small to be appreciated by the recipients.

However, the process of strengthening reserves was persisted in, and even before the 1914–18 war one or two Offices had embarked on schemes of bonus distribution in one form or another.

So long ago as 1907, it was claimed by one Office that it had up to that time distributed no less than £4,000,000 among its industrial branch policyowners, although the policies gave no contractual right to a share in the profits. In that year also the Office amended its Articles of Association in order to give to its industrial branch policyowners a definite share in the divisible surplus of that branch after provision had been made for the payment of a fixed dividend to the shareholders. Incidentally, the members of the outdoor staff were admitted to a share of the surplus at the same time.

Although the allocation of a portion of the industrial branch profits to the policyowners is a comparatively recent development so far as the Companies are concerned, yet in one or two of the collecting societies allocations have been made for over sixty years.

During the 1914–18 war the development which had been proceeding was suspended. Conditions were, in fact, generally adverse to the earning of surpluses. In particular, the Offices had without exception paid war claims in full, although in the majority of cases they were not under any obligation to do so. As can well be imagined, this imposed a very severe strain on the Offices, and completely absorbed any sums that might otherwise have been available for bonus purposes.

The conclusion of the war did not see an immediate return to favourable conditions. Investments had depreciated, staffs were demanding higher rates of remuneration, and there were recurrent influenza epidemics. In fact, it is probably true to say that the epidemics of 1918 and 1919 cost the Offices more in death claims than the war had.

In addition to the foregoing, and partly as a result of the higher remuneration granted to staffs, expenses, measured as a percentage of premium income, rose rapidly to a peak in 1920, when the expense ratios of most of the large Offices varied between 45 per cent and 50 per cent.

After 1920, conditions gradually improved. Interest rates on new investments were high for some years (but are no longer so), economies were effected, and, in spite of one or two influenza epidemics, mortality rates were favourable. Surpluses were earned, but were utilized, in the main, to strengthen valuation reserves. The free paid-up policy and surrender value provisions of the 1923 Act placed a very severe strain on most of the Offices, and particularly on the weaker ones. While it would not be true to say that the Act was responsible for the present strong financial position of the Offices, yet it is probable that, in order to be in a position to give the statutory free paid-up policies and surrender values when required to do so, the Offices hastened what would otherwise have been their normal rate of strengthening reserves. One result of this was that sums which would no doubt have been used to give bonuses in one form or another to policyowners, were used instead to strengthen reserves. When these had been sufficiently strengthened, however, the principle of admitting industrial branch policyowners to a share in the profits of that branch became a feature of the business. In fact, in a paper, entitled "Participating and Non-participating Industrial Assurance," which Mr. H. J. Briscoe, F.I.A., submitted to the Ninth International Congress of Actuaries in 1930, he estimated that, taking the Offices as a whole, the participating system had been adopted by Offices in Great Britain whose industrial funds amounted to over 95½ per cent of the entire industrial funds in the country.

Before examining in detail the various methods of distribution of surplus now in operation, we should make reference to the points that have to be borne in mind when an Office is considering which method to adopt. Various policyowners should be treated as equitably as circumstances will allow, but the method selected should be simple in operation. In practice, owing to the large number of contracts, and to the smallness of the sums assured, strict equity has to be sacrificed to simplicity to a much greater degree in industrial life assurance than is the case in ordinary life assurance. The method should be one which can be readily understood, and its fairness appreciated by the policyowner.

The purpose of life assurance is to provide a sum on the death of the life assured, and unless there are special reasons for not doing so, it is desirable to utilize any sums that may be available for distribution among the policyowners in furtherance of this purpose. For this reason cash bonuses are to be deprecated.

When an Office is considering a distribution of surplus for the first time, it will naturally desire to do the best it can for its old

policyowners, to whom, in all probability, the surplus is mainly due. It is this fact which accounts for many of the systems now in force.

In the consideration of systems which follows, any figures which are quoted relate to the year 1938, i.e. the last year before the commencement of the second world war.

Additions to Sums Payable on Policies becoming Claims by Death or Maturity within a Specified Period

The system is frequently referred to as the "Mortuary Bonus" system. It has been favoured by Offices at their first distribution of bonus when the surplus available has been small. By specifying the period in the first instance as one year only, the cost is comparatively low, and the Office is enabled, if it so desires, to give a bonus on an increasing scale according to the age of the policy. At future distributions, assuming surpluses to increase, the specified period may be extended, and it would be the aim of the Office ultimately to make the bonus a vested reversionary one.

It may be mentioned that this was the system first adopted by the largest Office when it commenced granting bonuses. The specified period was originally one year, but it has been gradually extended until after the 1934 valuation, by which time all bonuses granted had become vested reversionary bonuses.

Simple Reversionary Bonuses

After each valuation, assuming that a disposable surplus is disclosed, an amount, payable with the sum assured when the claim arises, is added to the policy. The essential difference between this system and the system of mortuary bonuses just described is that the added amount is payable whenever the claim arises, and not only should it occur within a stipulated period. Naturally, this means that for a given rate of bonus the system is much more costly than the mortuary bonus system. To lighten the cost the bonus may be added only to policies that have been in force for a specified minimum period, and it may even then "vest" only after a given period, which means that it is payable only should the claim occur after the expiration of that period.

An Office considering the adoption of the reversionary bonus system would find it very costly, if it desired to apply it to existing policies and to discriminate in favour of those of long duration. In such circumstances it might favour a combination of the mortuary bonus system for existing policies and the reversionary bonus system for new entrants. In the largest Office,

prior to the results of the 1932 valuation, the vested reversionary bonus system operated only for policies issued on or after 1st January, 1923, the mortuary bonus system operating for policies issued before that date. As previously mentioned, however, all bonuses are now vested reversionary bonuses and the rate declared after the 1938 valuation was £1 12s. per cent of the sum assured. The bonus vested on completion of payment of one year's premiums.

The system of simple reversionary bonuses is one that can, in suitable circumstances, give equitable results, but benefits should be calculated with special reference to the system. Where it is to apply to new entrants only, therefore, no difficulty need be experienced.

In view of the number of policies affected, and the comparative smallness of the bonus amounts on individual policies, it is not practicable to issue bonus certificates. Bonuses cannot be surrendered for cash (unless the whole policy is being surrendered), and therefore the amount of bonus attaching to any policy depends entirely on the year of issue of the policy and the sum assured thereunder.

In the system just described the bonus is declared as a percentage of the sum assured. One or two Offices which adopt the reversionary bonus system, however, base the bonus on the premium payable. For example, one Office, as a result of its valuation as at 31st December, 1938, declared a bonus (to vest immediately) on all policies issued before 1st January, 1932, on which premiums were being paid on 13th March, 1939, the bonus on whole life policies being at the rate of 1s. 4d. per weekly premium of 1d. (or monthly premium of 4d.) and on endowments and endowment assurances at the rate of 1s. for a similar premium. This system has a good deal to commend it, and it is argued in its favour that as the premium is usually integral the amount of the bonus is more easily calculated by the policyowner than where it is declared as a percentage of the sum assured. In the example given it will be observed that a policy, in order to qualify, must have been paid on for over seven years. This is an important stipulation, because under the system the same amount of bonus would be allotted at any distribution to a policy under which the life assured is, say, 75, as to one under which the life assured is, say, 25, providing that the type of policy and the amount of the premium were similar. Yet on account of the difference in age, the cost of the bonus in the former case would be two or three times that in the latter. The qualifying period justifies this to a large extent, because, proportionately, more policies will become claims by death during this

qualifying period where the lives assured are of advanced age than where they are not, and there will be, therefore, fewer policies left to share in the surplus earned by the group.

Another Office which has adopted this principle of basing the amount of bonus on the periodical premium provides for a qualifying period of 10 years.

It should be mentioned that both under the mortuary bonus system and under the simple reversionary bonus system, should a bonus be allotted to a policy where the life assured has not attained the age of 10, it is stipulated that in the event of the death of the child before the attainment of that age no bonus will be payable. This precaution is necessary because of the danger of over-insurance (see Chapter XV).

Additions to Sums Assured under Certain Policies of Short Duration to Avoid Re-entries under Improved Prospectuses

When an industrial assurance office decides to issue a new whole life table giving larger sums assured for a given weekly premium, it is always confronted with the difficulty of knowing what to do for existing policyowners. If the sum assured for a given weekly premium at age $(x + t)$ under the new table is greater than it was under the old table at age x, then there is clearly a strong inducement for the owner of an existing policy effected t years or less ago on a life then aged x to drop his policy and re-enter. Even if the sum assured at age $(x + t)$ is not greater than it was at age x, there may be a free paid-up policy amount which can be claimed under the existing policy, and this added to the new sum assured may be greater than the old sum assured, in which case the inducement remains. One might go a stage further and say that even although there may be no inducement to lapse and re-enter when benefits only are considered, yet the policyowner may be so heavily in arrear on his existing policy that it would be to his advantage to lapse it and re-enter under the new table.

This question of lapse and re-entry has always caused the Offices a good deal of anxiety, and they have always been opposed to it. Apart from other considerations, the process is a costly one, for in addition to the clerical labour involved in the lapsing of the old policy and the issuing of the new, there are frequently new business fees to be paid to the agent concerned.

As a practical solution to the foregoing difficulties, an Office will sometimes, on the issue of an improved whole life table, grant to existing policyowners similar benefits under their existing policies as would be obtained by lapse and re-entry.

ADDITIONS TO SUMS ASSURED UNDER ALL WHOLE LIFE POLICIES IN ORDER TO RAISE THEM TO THE LEVEL OF AN IMPROVED PROSPECTUS

The system of distribution under the last heading was designed to meet a practical difficulty, but the system to which reference is now made goes much further, for the sum assured under every existing policy is raised to the sum assured that would have been secured had the new prospectus been in force at the time when the policy was effected. How far can the system be justified in equity?

Presumably the improvements in the new prospectus have become possible because the Office anticipates that in respect of one or more of the following three factors which enter into the calculation of benefits, its experience will be more favourable in the future than it anticipated when calculating the old prospectus rates—

(*a*) the rates of mortality experienced by the lives assured;
(*b*) the rates of interest earned on the funds;
(*c*) the expenses incurred in the conduct of the business.

But if this is the justification for the new benefits, it is difficult to see how these benefits can, in fairness, be given to existing policyowners, whose policies have experienced the more adverse rates prevailing in the past.

Although the cost of the concession depends to some extent on the relative increases in sums assured, in practice it is always extremely heavy. In view of this an Office may not be able, immediately on the introduction of the new prospectus, to grant the increases on the sums assured under existing policies as permanent additions. Where it is unable to do so it may provide that on policies becoming claims within a specified period the sums assured payable will be those which would have been payable if the new scale of benefits had been in operation when the policies were effected. Where this method of spreading the cost over future years is adopted, it would probably be the intention gradually to extend the period during which the policy must become a claim, until eventually the new sum assured would be payable no matter when the claim arose.

One of the drawbacks to the system is that a dangerous precedent is created, for if an Office has once afforded such generous treatment to existing policyowners, it will be expected to do so whenever an improved scale of benefits is introduced. This might well cause an Office that has once adopted the system to hesitate before introducing a new table, although it might otherwise be anxious to do so.

The system has at least one practical advantage to an Office which has had in operation many varying scales of benefits, because under the method of valuation most generally adopted for industrial assurance policies it is a convenience if a uniform scale of benefits is in operation throughout.

The most outstanding application of this method of distributing surplus is that of a large Office which, following its valuation as at 31st December, 1926, increased the sums assured under its existing contracts by over £9,000,000 in order to raise them to the level of its latest prospectus. This represented an average addition of 11 per cent to the benefits under the policies concerned, and the value of the concession was estimated to be upwards of £3,800,000.

Cessation of Premiums on Attainment of a Given Age and Duration

Under this scheme provision is made for the cessation of premiums on the attainment of a certain age by the life assured (or by both lives assured in the case of joint life policies), providing premiums have been paid for a minimum number of years. An Office is not usually able, as the result of one distribution of surplus, to do all that it desires in this direction, and there are one or two methods of spreading the cost over a number of distributions.

One Office which provides under its new whole life policies for the cessation of premiums on the attainment of age 65, providing premiums have been paid for a minimum period of 20 years, declared its intention of making ultimately a similar provision for all its existing contracts. After successive valuations the available surplus was used to reduce both the age and duration necessary to qualify, and the final objective was reached after the 1934 valuation.

Another Office provides for the cessation of premiums on the attainment of age 85, providing they have been paid for 10 years, but after each valuation it sets aside for this purpose only sufficient surplus to provide for the concession to those policyowners whose policies qualify during the following year. The cost is, of course, only a fraction of what it would be if provision were made for the cessation of premiums *whenever* the policies qualified. The difference is analogous to that between providing for a mortuary bonus and providing for a vested reversionary bonus. It should be mentioned, however, that the Office which provides for the cost of the cessation of premiums benefit in this way also allots reversionary bonuses.

The cessation of premiums benefit as a means of distributing

surplus must not be confused with the similar benefit which is quite frequently a policy condition.

One of the principal advantages which is claimed for the system is that premiums cease in old age, when incomes are normally reduced; but it is pertinent to inquire "Whose old age?" As was explained in Chapter I, a large proportion of industrial whole life policies are effected for funeral expenses, and many are effected by a person on the life of his parent. In these circumstances the attainment of old age by the life assured can have little effect on the earning capacity of the policyowner, and this merit of the system loses a good deal of its force.

What is, perhaps, a more real advantage in practice is that the system lessens the possibility of the policyowner paying in premiums two, three, or even more times the sum assured under the policy. At advanced entry ages, if premiums are payable throughout life, this is easily possible (although not at all inequitable), and frequently causes dissatisfaction.

A disadvantage of the system is that it is not strictly equitable. Supposing, for example, premiums are to cease on the attainment of age 70 providing they have been paid for 20 years, then the cash value of the concession would be the same in respect of each of two policies with the same premium under which the life assured has attained age 50, although one policy may have been in force for even less than a year and the other for 30 years (or more). Again, if the whole of the surplus is distributed in this manner, only the whole life policyowners benefit.

It is not usual to require the production of a birth certificate in order to establish a claim to the concession, but if when the policy finally becomes a claim by death it should appear from the death certificate that the age was overstated at entry, then it is probable that an increased sum assured would be paid to the policyowner less the amount due to the Office on account of premiums wrongly excused. If an apparent understatement of the age at entry is disclosed then the adjustments would again be twofold: (1) a reduction in the sum assured, and (2) a refund to the claimant of the overpaid premiums.

Cash Bonuses

The system of allotting bonuses in cash is one that has not found much favour in this country, although it is commonly used in America. It is popular with the agents, who find to their advantage that it helps them to collect arrears of premium or to persuade policyowners to place their policies in credit by the payment of premiums in advance of the due dates.

In the case of an Office distributing profits annually, the actual

amount of the cash bonus on a policy subject to a weekly premium of a few pence, could only be small, and in many cases would be frittered away and soon forgotten. As explained earlier in the chapter, it is far better that what surplus there is should be utilized to provide an additional sum on the death of the life assured.

From the Office point of view, the advantage of the method seems to be that once having divided the surplus in this way it is no further concerned with it. In particular, there are no difficulties in valuation or in the payment of claims.

Methods Adopted by the Twelve Largest Offices

In the following table are set out the methods adopted by the twelve largest Offices (measured by their respective premium incomes) for the distribution of profits among their industrial branch policyowners at their last valuations prior to 1939. The methods of distribution are indicated by the following letters—

Additions to sums payable on policies becoming claims by death or maturity within a specified period . . . . . (*a*)
Simple reversionary bonuses . . . . . (*b*)
Additions to sums assured under certain policies of short duration to avoid re-entries under improved prospectuses . . . . (*c*)
Additions to sums assured under *all* whole life policies in order to raise them to the level of an improved prospectus . . . (*d*)
Cessation of premiums on attainment of a given age and duration . (*e*)
Cash bonuses . . . . . (*f*)

Office No.	Method of Distribution					
	(*a*)	(*b*)	(*c*)	(*d*)	(*e*)	(*f*)
1	—	Yes	—	—	—	—
2	—	Yes	—	—	—	—
3	Yes	—	—	Yes	—	—
4	—	Yes	—	—	—	—
5	Yes	—	—	—	—	—
6	Yes	Yes	—	—	Yes	—
7	Yes	Yes	—	—	Yes	—
8	Yes	—	—	—	—	—
9	Yes	—	—	—	—	—
10	—	Yes	—	—	Yes	Yes
11*	Yes	—	—	Yes	Yes	—
12*	Yes	Yes	—	Yes	Yes	—
No. of Offices adopting	8	7	—	3	5	1

* In these two Offices the additions to the sums assured under (*a*) are such as to increase the sums assured to the level of an improved prospectus.

Conclusion

It will be clear that there is no uniformity in the methods adopted by the Offices for the distribution of profits among their industrial branch policyowners; nor are there signs that there ever will be. Moreover, although distributions are now a feature of the business, it should be emphasized that policyowners have not, as a rule, any definite right in the matter. In collecting societies the surplus properly belongs to the members, but among the industrial assurance companies there are only one or two in which the policyowners have been given the right to share, and in which the policies are issued as "with-profit" contracts.

The foregoing review does not extend beyond the year 1938, for the very good reason that during the war years which followed the Offices were adversely affected by heavier expenses, heavier taxation, war claims, and lower interest rates, and naturally adopted a cautious attitude. Bonus distributions generally were on a modified scale, and those Offices which had adopted the vested simple reversionary bonus system reverted to the system of mortuary bonuses.

CHAPTER XV

ILLEGAL POLICIES

If an Office issues an illegal policy or one not within its legal powers, it is guilty of an offence under the 1923 Act, and is liable to a fine not exceeding £100. In addition, it is liable to pay to the owner of the policy a sum equal to the surrender value of the policy if it was effected before the commencement of the Act (i.e. before 1st January, 1924), or a sum equal to the amount of the premiums paid if it was effected after the commencement of the Act. The offence is not committed, nor is the Office liable, in respect of the payment to the owner of the policy, if it is proved that owing to any false representation on the part of the proposer the Office did not know that the policy was illegal or beyond its legal powers.

The foregoing is the general effect of Section 5 (1) of the 1923 Act, read in conjunction with Sections 39 (1) and 39 (2), and it has been held by Mr. Justice Mackinnon on a special case stated by the Commissioner for the opinion of the High Court (*Bromley* v. *Pearl*) that "false" representation simply means "untrue" of "incorrect" representation. A similar view had in fact previously been held by the Commissioner himself in *Wallis* v. *Hearts of Oak*, 1930, and by the Commissioner for Northern Ireland in *Stewart* v. *Co-operative*, 1932. The Office is not called upon to show that the representation was wilfully or knowingly false. If it had to do so then the innocence or guilt of the insurers under the first part of the section, which makes the issuing of an illegal policy or of one not within the legal powers of the Office an offence, would depend, in the words of the Commissioner for Northern Ireland, "not on whether they had been misled, but on whether they had been deliberately misled by a person for whose conduct they were not responsible. Any construction which would have this result and which is not demanded by the ordinary meaning of the language used must, in my opinion, be rejected." At the same time it should be noted that in order to escape liability the Office must prove that it did not know the policy was illegal or beyond its legal powers, and "that its lack of knowledge was due to the misrepresentation complained of."

In this connection, if there has been misrepresentation in the proposal, the agent having knowledge of the true facts, then if he acquired that knowledge in such circumstances as to make it the knowledge of the Office, the latter would not be able to plead that owing to false representation on the part of the proposer it

did not know the policy was illegal or beyond its legal powers. Knowledge of an agent, to be attributable to his principal, must have been acquired by the agent, not only while acting for his principal, but in the course of the particular transaction in question.

It is important to note that not only is the Office guilty of an offence if it issues an illegal policy or one not within its legal powers, but Section 5 (2) of the Act forbids any collector of, or person employed by, an Office knowingly to assist in effecting such a policy.

The right of the policyowner in the circumstances described to the payment of a surrender value or to the return of all premiums paid, is a distinct modification of the law in his favour, since it is a general principle of English law that premiums are not recoverable on illegal policies unless the assurer is in *majori delicto* (i.e. greater guilt) than the proposer. Nor are premiums recoverable if paid under a mistake of law.

DISPUTES

When a question regarding the legality of a policy is raised, it is seldom heard in a Court of Law, but advantage is taken of the proviso to Section 32 (1) of the 1923 Act, which relates to disputes in general. The procedure under that proviso is simple in the extreme. In any dispute between a collecting society or industrial assurance company and—

(*a*) any member or person assured; or

(*b*) any person claiming through a member or person assured, or under or in respect of any policy, or under the rules, or under the Act; or

(*c*) any person aggrieved who has ceased to be a member or any person claiming through such person aggrieved,

the matter may be referred to the Commissioner by either of the parties to the dispute without the consent of the other, if the amount of the claim does not exceed £50 and the legality of the policy is not in question, and fraud or misrepresentation is not alleged. If both parties agree that the dispute should be referred to the Commissioner, then he may proceed to hear the dispute without restriction as to the amount of the claim or the nature of the question to be decided.

This restriction on the type of dispute which may be referred to the Commissioner by one party without the consent of the other is a valuable safeguard for the Offices, because there is no right of appeal from a decision of the Commissioner on any point of law, although the Commissioner may, at the request of either party, state a case for the opinion of the Supreme Court in England, or of the Court of Session in Scotland.

Although this safeguard exists, the Offices rarely take advantage of it, and they would probably do so only if an important question of principle, involving perhaps thousands of policies, were at stake.

Under the powers which the Commissioner has for making regulations imposing fees (Section 43), he has prescribed the following scale for disputes under Section 32 (1)—

	Fee s.	d.
Where the amount of the claim does not exceed £10 . .	2	6
Where the amount of the claim exceeds £10 but does not exceed £25	5	–
Where the amount of the claim exceeds £25 but does not exceed £50	10	–
Where the amount of the claim exceeds £50, for every additional £50 or part of £50	10	–

Where the dispute relates to the rights of parties without involving any pecuniary claim the fee is 10s.

It should be mentioned that the foregoing scale of fees does not apply to applications for surrender value where there is a doubt as to the continued existence of the life assured [Section 32 (2)]. In these cases the fee is at the rate of 1s. for every £1 or part of £1 awarded.

The scale of fees is purely nominal, and there can be no doubt that the machinery set up has been of great benefit to policyowners, by reason both of its simplicity and of its cheapness. It is a tribute to the way in which the business is conducted that disputes have been, comparatively speaking, few. In his Report for the year ended 31st December, 1938, the Commissioner stated that the number of cases received during the year which became the subject of formal disputes under Section 32 (1), or applications for surrender value under Section 32 (2), was 1,716, involving 2,179 policies. The number of assurances in force at the end of 1938 was 101,221,203, so that approximately one policy in 46,000 was affected, and this is a negligible proportion. It should not be thought that the 1,716 cases were due entirely to dissatisfied policyowners. Those cases which are applications under Section 32 (2) for an award by the Commissioner for the payment of a surrender value, the continued existence of the life assured being in doubt, are not, as a rule, from dissatisfied policyowners. In fact, the references are often made by the Offices. Also in difficult cases of title, the Office, in order to obtain a satisfactory discharge, will frequently refer the matter to the Commissioner. The published figures do not, however, enable any detailed analysis to be made.

The negligible proportion of cases in dispute is all the more

remarkable because after many years' experience of the Act, the existence of the Commissioner and of the simple procedure for settlement of disputes had become well known to policy-owners. In fact, every policy issued after the commencement of the Act, sets forth a statement of the effect of Section 32 (see page 72).

Policies Issued Before the Passing of the Assurance Companies Act, 1909

Section 3 of the 1923 Act is to all intents and purposes a re-enactment of Section 36 (1) of the Assurance Companies Act, 1909, with the addition of the "child" relationship which had been omitted from the 1909 Act through a misunderstanding. Prior to that Act, industrial assurance companies had had no power to issue funeral expenses policies, and the collecting societies had had power to do so only in respect of policies on the life of the husband, wife, or child of a member or of the widow of a deceased member. In spite of this, however, policies were issued for the purpose of meeting funeral expenses, and various methods were adopted in order to do so. In some Offices the policies were issued quite openly and the relationship (e.g. aunt) was described correctly on the proposal.

When power was given to Offices under the 1909 Act to issue funeral expenses policies, a special section was included [Section 36 (2)] to validate those policies effected before the passing of the Act (3rd December, 1909) where—

(*a*) the person effecting the assurance had not, at the time the policy was effected, an insurable interest in the life of the person assured; or

(*b*) the name of the person interested, or for whose benefit or on whose account the policy was effected, was not inserted in the policy; or

(*c*) the assurance was not one authorized by the Acts relating to friendly societies,

if the policy was effected by or on account of a person who had at the time a *bona fide* expectation that he would incur expenses in connection with the death or funeral of the person whose life was assured, and if the sum assured was not unreasonable for the purpose of covering those expenses. Any such policy was to enure for the benefit of the person for whose benefit it was effected, or his assigns.

This Section was re-enacted in Section 31 of the 1923 Act, from which it will be seen that even although a policy was effected by a person who would now be a non-permitted relative or even

no relative, the policy is not necessarily void on that account if it was effected before 3rd December, 1909.

The fact that both in the 1909 Act and in the 1923 Act the reference to funeral expenses policies on the permitted relations is to "*the funeral expenses* of a parent (child), grandparent, grandchild, brother, or sister," and in the case of policies effected before 3rd December, 1909, to "*expenses in connection with the death or funeral of*" has led to some doubt as to whether the expenses covered are wider in the latter case than in the former. It may be argued, for example, that while the travelling expenses of the policyowner to attend the funeral might be covered in the latter case, they would not be in the former. The point may possibly be dealt with in any future legislation by providing that a person may assure the life of any other person within the permitted degrees of relationship for any amount up to a stated maximum.

Relationships Under Section 3 of the 1923 Act

In describing the various relationships no mention is made in the section of "half" brothers and sisters, but it is thought that they would be covered by the terms "brother" and "sister," particularly as most modern legislation treats brothers of half-blood just as brothers of whole-blood. In practice, therefore, proposals on "half" brothers and sisters are generally accepted by the Offices on the same basis as "whole-blood" relationships, but this does not apply to "step" or "in-law" relationships.

The Departmental Committee recommended in 1933 that step-parents, step-children, step-brothers, step-sisters, half-brothers, half-sisters, and children-in-law should be added to the list of relatives permitted to assure, but this recommendation has not yet become law.

At one time there was a doubt whether the relationship "child" covered an illegitimate child. That doubt has now been removed (at all events where the proposer is the mother) by a judgment given in the High Court on a special case stated by the Industrial Assurance Commissioner on a point of law. The case was that of *Morris* v. *Britannic*, [1931] 2 K.B. 125, and Mr. Justice MacKinnon decided that a mother can assure her illegitimate child for funeral expenses. The question of a putative father was not considered, and there remains the uncertainty whether he can assure his child for the same purpose.

It is interesting to note that in the course of his judgment Mr. Justice MacKinnon said that it seemed clear the Act did not intend to put a ban on the insurance for funeral expenses of illegitimate children as such, for it gave a brother or sister the

right to insure for this purpose, and that right would be the same whether the brother and sister had been born in wedlock or not.

Later, the Commissioner held that a policy taken out by an illegitimate child on the life of his or her mother, for the purpose of insuring money to be paid for funeral expenses, is a legal policy [*Swainbank* v. *Co-operative* (1933 E. 29)].

The relationship "child" does not cover an adopted child, unless an adoption order has been obtained under the Adoption of Children Act, 1926. It is a simple matter to obtain such an order, the procedure being regulated by rules prescribed by the Lord Chancellor. The Court which has the power to make adoption orders is the High Court or, at the option of the applicant, any County Court or any court of summary jurisdiction within the jurisdiction of which either the applicant or the infant resides at the date of the application for the adoption order. Under rules which have been prescribed it is possible to obtain an order otherwise than in open Court, and where the application is made to a court of summary jurisdiction, it may be heard and the order made by a Juvenile Court as defined by the Children Act, 1908. Only unmarried children under the age of 21 may be adopted, and the person wishing to adopt the child must be at least 25 years of age and at least 21 years older than the child.

Generally speaking, the effect of an adoption order is to deprive the lawful parents of their parental rights, and to transfer them to the adopted parents. So far as the effect on industrial assurance is concerned, the most important part of the Adoption of Children Act, 1926, is Section 5 (5). This Section enables the person who has obtained an adoption order to insure the adopted child for funeral expenses, and provides that all the rights and liabilities under industrial assurance policies effected by the natural parent before the date of the adoption order shall be transferred *without assignment* to the adopter. The subsection is as follows—

> For the purposes of the enactments relating to friendly societies, collecting societies and industrial assurance companies, which enable such societies and companies to insure money to be paid for funeral expenses, and which restrict the persons to whom money may be paid on the death of a child under the age of 10, the adopter shall be deemed to be the parent of the child; and where before the adoption order was made any such insurance had been effected by the natural parent of the child, the rights and liabilities under the policy shall by virtue of the adoption order be transferred to the adopter, and the adopter shall, for the purposes of the said enactments, be treated as the person who took out the policy.

It would seem that a legally adopted child could effect a policy on the life of the adopting parents to exactly the same extent as he could if he were the lawful child.

TYPES OF ILLEGALITY

It was stated by the Commissioner in his evidence before the Departmental Committee, 1931, that the main types of illegality are—

(*a*) Where a policy is taken out for funeral expenses by a non-permitted relative, who would be described in the proposal as one of the permitted relatives;

(*b*) where A, not being a permitted relative, takes out a policy on B's life and B signs the proposal, so that the proposal is own-life in form, but B never intends to pay any premiums and A intends to pay them all;

(*c*) where a permitted relative assures a life in excess of the amount of reasonable funeral expenses; and

(*d*) where a child is insured for an amount in excess of the statutory maxima.

(*a*) *Policy taken out for Funeral Expenses by a Non-permitted Relative who is Described in the Proposal as one of the Permitted Relatives.*

Under the provisions of Section 3 of the 1923 Act, Offices may issue policies to insure money to be paid for the funeral expenses of the parent, child, grandparent, grandchild, brother, or sister of the person effecting the assurance.

It sometimes happens that for some reason best known to himself (usually speculation), a person wishes to effect an assurance on the life of a person *not* within the degrees of relationship permitted by the Section. In the absence of any insurable interest one way of doing so illegally is to effect a policy under the Section for funeral expenses and wilfully to describe the relationship in the proposal as one of those permitted by the Section. The facts may or may not be known to the agent (they would certainly not be brought to the notice of the Head Office), but in any case the policy would be an illegal one.

As examples there may be cited the cases of *Joseph Conway* v. *Catholic Life & General* (1929 N.I. 43), where the claimant was stated in the proposal to be the father of the life assured, whereas he was his cousin, and *Emily Chick* v. *Pearl* (1931 E. 82), where the claimant was stated in the proposal to be the daughter of the life assured, whereas she was his daughter-in-law.

(*b*) *A, not being a Permitted Relative, takes out a Policy on B's Life and B signs the Proposal.*

In these cases the proposal is own-life in form, but B never intends to pay any premiums and A intends to pay them all. Presumably A has no insurable interest in the life of B, and the transaction is simply an attempted evasion of the Life Assurance Act, 1774. It fails, however, because the name of the person

interested or for whose benefit or on whose account the policy is effected does not appear in the policy.

This type of illegal policy is more unsatisfactory so far as the payer of premiums is concerned than is the type referred to under (*a*), because under (*a*) the proposer does get the sum assured on the death of the life assured if the illegality has not been discovered in the meantime. Under (*b*), however, the policy would be held by A, whereas in accordance with the terms thereof the sum assured would be payable to the representatives of B. Unless the two parties could come to terms, or the case were referred to the Commissioner, it is just possible that no one would get the sum assured, as the Office would wish to pay the person who appeared to be the legal claimant, but would be unwilling to do so without production of the policy.

It is thought that since the coming into force of the 1923 Act the issue of policies of this type has practically ceased. In the first place, it is a requirement under Section 20 (1) of the Act that in the case of adult "own-life" policies the proposal must contain a declaration by the person whose life is to be assured that the policy is to be taken out by him, and that the premiums thereon are to be paid by him. Moreover, the Offices would take a serious view of any attempt by a representative to introduce a proposal in "own-life" form, when the life assured does not intend to pay the premiums, and the livelihood of any representative making such an attempt would be greatly jeopardized.

(*c*) *Permitted Relative assures a Life in Excess of the Amount of Reasonable Funeral Expenses.*

As has previously been mentioned, Section 3 of the 1923 Act is to all intents and purposes a re-enactment of Section 36 (1) of the Assurance Companies Act, 1909, with the addition of the "child" relationship, and it has been held that under that Act (*Goldstein* v. *Salvation Army*, [1917] 2 K.B. 291) the amount which may be insured by one person on the life of another for funeral expenses must be reasonable, having regard to the circumstances of the case.

Although the type of illegality here referred to does exist, it is probably not very prevalent, and inasmuch as Offices ask on their proposal forms for particulars of existing assurances, it can arise only when there is a concealment of the facts.

A type of illegality somewhat akin to that under (*b*) occasionally arises because of the limitation of the amount which may be insured for funeral expenses. A person wishing to effect a policy for a sum assured which by itself, or which, when added to the sums assured under previous policies taken out by him on the

same life, is in excess of a reasonable amount, may be told by an unscrupulous agent that it can be accomplished by means of an "own-life" proposal on the life of the person whose life he wishes to insure. The policy, when issued, is void under the Life Assurance Act, 1774. For reasons precisely similar to those given under (*b*) there can have been very few of these policies issued since the commencement of the 1923 Act.

(*d*) *Child Insured for an Amount in Excess of the Statutory Maxima.*

References to the limits which Offices may, by the provisions of Section 2 (1) of the Friendly Societies Act, 1924, insure or pay on the death of a child before the attainment of age 10, have been made in previous chapters. For convenience, however, they are given here as follows—

Where death occurs under			3	years	of age	.	.	.	£6
,,	,,	,,	6	,,	,,	.	.	.	£10
,,	,,	,,	10	,,	,,	.	.	.	£15

It is important to note that the sums assured under all assurances on the life must be aggregated, whether or not they were effected by the same person, and whether or not they were effected with friendly societies, branches of friendly societies, trade unions, or industrial assurance companies.

It is provided in Section 2 of the Industrial Assurance and Friendly Societies Act, 1929, that for the purpose of calculating the maximum sum which may be insured or paid, no account is to be taken of any repayment of the whole or any part of the premiums paid in respect of any endowment or endowment assurance policy.

The limits in force, before the commencement of the 1923 Act, for industrial assurance companies, and before the passing of the Friendly Societies Act, 1924, for collecting societies, were—

£6 where the death occurred under age 5 and
£10 ,, ,, ,, ,, ,, 10

The Offices are always faced with the danger of issuing a policy on the life of a child for sums assured which, when aggregated with those under a policy with another Office not disclosed on the proposal, exceed the statutory maxima. It is because of this danger (and not to enable them to issue such policies indiscriminately) that the Offices include in their policies a clause or policy condition designed to prevent the possibility of over-insurance. In fact, an Office is not always in a position to say whether there is already in force in the Office itself a policy on the life of the child, if the existence of that policy is not disclosed on the proposal. In the cases that have come before the Courts, e.g.

Harker v. *Britannic*, [1928] 1 K.B. 766; *Hirst* v. *Liverpool Victoria*, [1930] 2 K.B. 209; *Clark* v. *London and Manchester*, [1930] 2 K.B. 209; the question of the legality or otherwise of the contract has always turned on the drafting of the policy or of any endorsements appearing thereon, but the clause which is suggested in Chapter VI does, it is thought, completely overcome the difficulty.

Other Types of Illegality

Two further types of illegality are—

1. Cases stated to be taken out by a husband on the life of his wife, or vice versa, but where the parties are not married.
2. Cases where the proposal form was not signed by the alleged proposer.

These types are rarely met in practice, but the possibility of the second one, in connection with the type of illegality referred to under (*b*), should not be overlooked. If it is desired to effect an illegal policy in the manner there described, and the person on whose life the assurance is to be effected is unwilling to sign the proposal form, then, probably, the real proposer would forge the signature of that person. Before the passing of the 1909 Act also, this method was no doubt used in order to secure the issue of "life of another" policies where no insurable interest existed.

Insurable Interest

Insurable interest is that interest of a pecuniary nature which, in accordance with the Life Assurance Act, 1774 (see page 18), a proposer under a "life of another" policy must have in the life to be assured. To be valid, the interest must not only be pecuniary, it must be enforceable at law and must exist at the date of the policy. It has been held that the sum assured under a policy which is supported by insurable interest must not exceed the amount of the interest at the time the policy is effected. The interest, however, need not be in existence at the date of the claim.

As an example of insurable interest there may be cited the interest which a creditor has in the life of his debtor—the death of the latter may jeopardize the recovery of the debt.

The question of insurable interest can rarely arise in the case of industrial assurance, but where it is present the question of the relationship of the proposer to the person whose life is to be assured is of no consequence. Also, by the provisions of Section 67 of the Friendly Societies Act, 1896 (which provisions are extended to industrial assurance companies by Section 4 (1) of

the 1923 Act), the statutory limitations in respect of children's policies do not apply if the person proposing the assurance has an interest in the life of the child.

Funeral Expenses Policies—Insurable Interest or Indemnity? For some considerable time doubts have been expressed whether policies effected under Section 3 of the 1923 Act, or Section 36 (1) of the 1909 Act for funeral expenses, are policies of life assurance based on a special kind of insurable interest, or whether they are policies of indemnity. The point is one of considerable importance, because if the policies are policies of indemnity, then the policyowner would be able to claim only the amount actually expended by him in funeral expenses. Again, if they are policies of life assurance based on insurable interest, then there is no reason in law why the policies should not be assignable. If they are indemnities, however, it is difficult to see how an assignee who is not in a position to incur the liability covered, could acquire any beneficial interest by the assignment. If the assignee is or may become subject to the liability covered, however, it is probable that a beneficial interest would be acquired by the assignment.

The category in which funeral expenses policies are to be placed has never been decided by the Courts, but there are indications of the trend of judicial opinion on the subject.

In *Wolenberg* v. *Royal Co-operative* (1915), 84 L.J.K.B. 1316, the plaintiff claimed under a policy which she had effected on the life of her mother in 1911 for funeral expenses. She had already received, under other policies on the same life, an amount of £70. This was more than the expenses she had actually incurred, and it was held that she could recover from the defendants neither the sum assured nor a return of the premiums she had paid. The importance of the case from our present point of view, however, lies in the views which were expressed as to the nature of policies issued under Section 36 (1) of the 1909 Act. Lush, J., was inclined to regard the policies as policies of indemnity, as will be seen from the following—

> There are two views that may be taken of the subsection. One is that it treats these policies as in the category of life policies, and that it gives to the relative an insurable interest in respect of money he may be called upon to pay for the funeral expenses of the relative. . . . The other view is that these policies ought to be treated as policies of indemnity. . . .
>
> It is not easy to determine which of these is the correct view. I am, myself, inclined to think that the latter is right, that these policies must be treated as policies by way of indemnity. It is a matter of very considerable importance, but I do not think it is necessary to decide it in this particular case.

Lord Atkin (then Atkin, J.), however, regarded the policies as policies of life assurance involving insurable interest, for he said—

> The meaning of Section 36 (1) is not only that the assurance societies may issue a certain class of policies, but also that the persons to whom the policies are issued shall be deemed to have an insurable interest to the extent and in respect of the purpose for which they have taken out the policy.

In *Goldstein* v. *Salvation Army*, [1917] 2 K.B. 291, the plaintiff had insured the life of his mother in several societies. On her death he alleged that he had spent a certain amount on the funeral, and after receiving sums from other societies he claimed the balance from the defendants. Much of the discussion centred round the question of whether in the particular case the cost of erecting a tombstone was a reasonable item of "funeral expenses," and, finally, the case was sent to the County Court Judge for re-trial. The effect of Section 36 (1) of the 1909 Act was, however, referred to by both Judges. Rowlatt, J., said—

> Then comes the main question founded upon the peculiar nature of this policy. It was issued under Section 36 (1) of the Assurance Companies Act, 1909, which includes among the purposes for which collecting societies and industrial assurance companies may issue policies, money to be paid for funeral expenses of, among others, a parent. The effect of that enactment is not to create a new insurable interest. The section does not enable a person to insure the amount he may pay for funeral expenses and then to come forward as a creditor and claim the amount he has expended, whatever that may be. It enables him to insure that particular disbursement which he apprehends as a matter of moral obligation he may have to make. Therefore, it falls to the tribunal before whom the claim is preferred when the death happens to inquire what that amount is.

McCardie, J., said—

> Whether in the present case, a tombstone is a reasonable item of expense is a question of fact for the learned Judge to determine, and, when he deals with the new trial, he ought to remember that the policy is a mere indemnity policy.

In *Hatley* v. *Liverpool Victoria* (1919), 88 L.J.K.B. 237, which was decided in 1918, and which dealt with a policy validated by Section 36 (2) of the 1909 Act, it was held that such a policy may pass as a gift by the person who effected the policy and that the sum assured may be paid to a donee who does not pay funeral expenses. This decision would not have been possible had the Court considered the policy to be one of indemnity only.

From the foregoing cases it would seem that judicial opinion was fairly evenly divided, with probably a tendency in favour of

considering funeral expenses policies as policies of indemnity and not policies of life assurance involving insurable interests. There are good reasons for thinking, however, that the legislature, when framing the 1923 Act, considered the policies to come within the latter category. Section 3 of the 1923 Act, while following the wording of Section 36 (1) of the 1909 Act, yet added the following words—

> and the issuing of such policies shall be treated as part of the industrial assurance business of the society or company.

Then Section 1 (2) of the 1923 Act defines industrial assurance business as the business of "effecting assurances upon human life, premiums in respect of which are received by means of collectors." As funeral expenses policies are industrial assurance business, which consists of effecting assurances upon human life, they should be regarded as policies of life assurance.

In the case of the winding-up of an industrial assurance company, the provisions of the 1909 Act apply. In such circumstances policies have to be valued, and the rules to be applied are set out in the Sixth Schedule to the Act. This schedule contains rules applicable to (*a*) Life Policies and Annuities, (*b*) Fire Policies, (*c*) Accident Policies, (*d*) Employers' Liability Policies, and (*e*) Bonds or Certificates. Policies of industrial assurance, in accordance with the definition in the 1923 Act, would fall to be valued under (*a*). But the rules under that heading would be impossible of application in the case of funeral expenses policies if these were to be regarded as policies of indemnity.

Moreover, the free paid-up policy and surrender value provisions of the 1923 Act apply just as much to funeral expenses policies as to any other type of policy, and yet if these policies are policies of indemnity it would be quite impossible to calculate their free paid-up policy amounts or surrender values by the rules set out in the Fourth Schedule to the Act—which are the only rules for the purpose.

It will be seen then that although judicial opinion may show a slight tendency to regard funeral expenses policies as policies of indemnity, yet legislation does not seem to regard them as such.

To put the matter beyond all doubt, the Departmental Committee recommended that a person who is permitted to assure the life of a relative should be given a statutory insurable interest in that life for a sum payable on death not exceeding £20, exclusive of bonus.

CHAPTER XVI

INSPECTIONS AND OFFENCES

INSPECTIONS

SECTION 17 of the 1923 Act relates to Inspections, and provides that if in the opinion of the Commissioner there is reasonable cause to believe that an offence has been, or is likely to be, committeed against—

(*a*) the Industrial Assurance Act, 1923,
(*b*) the Assurance Companies Act, 1909, or
(*c*) the Friendly Societies Act, 1896,

the Commissioner or any inspector appointed by him for the purpose shall have power to examine into and report on the affairs of the Office.

It will be observed that the Commissioner need not have proof that an offence against the Acts named has been committed; it is sufficient if he has *reasonable cause to believe* that an offence has been or *is likely to be* committed. The object of the provision is that the Commissioner may either by himself directly or through the medium of an appointed inspector obtain the information to enable him to decide what action (if any) he should take.

For the purpose of the inspection the Commissioner or any inspector appointed by him may exercise all or any of the powers given by Section 76 (5) of the Friendly Societies Act, 1896, as follow—

> An inspector appointed under this section may require the production of all or any of the books and documents of the society, and may examine on oath its officers, members, agents, and servants in relation to its business, and may administer such oath accordingly.

Section 17 (2) of the 1923 Act states that the Commissioner, on himself holding such an inspection or on receiving the report of an appointed inspector, may issue such directions and take such steps as he considers necessary or proper to deal with the situation disclosed therein. If he takes a sufficiently serious view of the situation, he may, in the case of a collecting society, award that the society be dissolved and its affairs wound up, and in the case of an industrial assurance company may present a petition to the Court for the winding-up of the company.

By Section 45 (2) of the 1923 Act, a collecting society may appeal to the High Court, or to the Court of Session if the society

is registered in Scotland, against a dissolution award by the Commissioner. It will be seen that the society or company respectively will have the opportunity of having the whole matter judicially investigated, in the case of a society in an appeal, and in the case of a company by opposing the petition.

Section 17 (3) of the 1923 Act gives the Commissioner power to direct that all or any of the expenses in connection with the inspection shall be defrayed out of the funds of the Office or by its officers, members of the committee of management, or directors, past or present. The sums directed by him to be so paid are recoverable by him as a civil debt with a right of appeal with the leave of the Court to the High Court, or to the Court of Session, as the case may be.

Several inspections have been instituted by the Commissioner, and in every case the inspection has been conducted by an inspector appointed for the purpose.

The powers of an inspector are ill-defined by the 1923 Act, with its references to the Friendly Societies Act, 1896, and no published instructions to inspectors have been drawn up by the Industrial Assurance Commissioner. Instructions to inspectors were issued by the Chief Registrar of Friendly Societies under the Friendly Societies Act, 1875, but it is believed they are contrary to the views which the Commissioner and his department have held for many years.

The Offices have not always seen eye to eye with the way in which inspections have been carried out, and in particular have resented that they should almost invariably have been held in public. Their view was that the sensational Press reports appearing even before any offence had been proved against the Office concerned could only have resulted in incalculable harm to the Office, to its policyowners, and to the business as a whole. The Inspector's view, on the other hand, was that only by giving publicity to the inspection could he hope to get into touch with policyowners in a position to give useful evidence.

Following one inspection the company concerned, with the support of the leading Industrial Offices, brought an action against His Majesty's Attorney-General, claiming a declaration that an inspector—

(1) is not bound to conduct such examinations in public,

(2) is not entitled to conduct such examinations in public, and

(3) is not entitled to make public the information gained by him in the course of such examination or of the exercise of the powers conferred upon him by Section 17 of the 1923 Act, and by Section 76 (5) of the Friendly Societies Act, 1896,

or otherwise to make use of such information save for the purpose of preparing his report on the affairs of the plaintiff.

The case was brought in the Chancery Division of the High Court, and the Judge held that the legislature had by necessary implication conferred upon the Industrial Assurance Commissioner a discretion with regard to the manner in which an inspection is to be conducted. The Judge stated that the Commissioner had not made any general rules with regard to the conduct of inspections, and that in the absence of any such rules he could exercise his discretion with regard to any particular inspection, and could decide whether it should be held in public or private, or partly in public and partly in private.

The Company was then advised to lodge an appeal, and the result was that the Court of Appeal confirmed the judgment by a majority, the Master of the Rolls dissenting.

The case was carried to the House of Lords, which, on the 15th March, 1932, reversed the decision of the Court of Appeal and declared—

That an inspector appointed by the Industrial Assurance Commissioner under Section 17 (1) of the Industrial Assurance Act, 1923, for the purpose of examining and reporting on the affairs of the plaintiffs is not entitled to conduct the inspection in public, but this shall not prevent him from admitting from time to time any persons the presence of whom is reasonably necessary to enable him properly to carry out his duty under the Statute.

That an inspector so appointed for the said purpose is not entitled to make public the information gained by him in the course of such examination or of the exercise of the powers conferred upon him by the said subsection and by Section 76 (5) of the Friendly Societies Act, 1896, or otherwise to make use of such information save for the purposes of carrying out his examination and of preparing his report on the affairs of the plaintiffs and for purposes ancillary thereto.

Of the five Lords of Appeal, one only dissented from the judgment, but he intimated that although he felt compelled formally to dissent he fully approved of its result.

OFFENCES

Section 39 of the 1923 Act lays down that any Office which contravenes or fails to comply with any of the provisions of the Act or any directions by the Commissioner shall be guilty of an offence, and the penalties are prescribed.

Collecting Societies

The following provisions of the Friendly Societies Act, 1896, with regard to offences thereunder and to proceedings in respect

of such offences, apply to offences by collecting societies under the 1923 Act.

Where a society is guilty of an offence, every officer who is bound by the rules of the society to fulfil a duty of which the offence is a breach, or, if there is no officer, every member of the committee of management, is liable to the same penalty as if he had committed the offence. A member of the committee who is proved to have been ignorant of, or to have attempted to prevent, the commission of the offence is excepted (Section 85).

Every default constituting an offence, if continued, constitutes a new offence in every week during which the default continues (Section 86).

Complaint may be lodged by specified persons connected with a society or by the Chief Registrar or his appointee, of cases of fraud, false declaration, and misappropriation. For example, if any person, with intent to defraud, gives another person an obsolete copy of the rules of a society on the pretence that they are the existing rules, he is guilty of a punishable misdemeanour (Section 87).

A fine not exceeding £50 is imposed for falsification of returns (Section 88).

Unless a fine for a particular offence is expressly provided by the Act, it is not to exceed £5 (Section 89).

A fine or any costs and expenses are recoverable in a Court of Summary Jurisdiction (Section 91). Right of appeal is granted to the Quarter Sessions in England or Ireland, or in accordance with the Summary Jurisdiction (Scotland) Acts in Scotland (Section 93).

The proviso to Section 39 (1) of the 1923 Act, states that the maximum penalty which may be inflicted for an offence under the Act shall be a fine not exceeding £100 or, in the case of a continuing offence, a fine not exceeding £50 a day during which the offence continues.

It will be observed that for offences by collecting societies under the 1923 Act, the maximum penalty is £100, or in the case of a continuing offence a fine not exceeding £50 a day. For offences under the 1896 Act the maximum penalty is £5, unless the offence is one for which a fine is expressly provided in that Act.

Industrial Assurance Companies

A company which is guilty of an offence under the 1923 Act is liable to a penalty not exceeding £100, or, in the case of a continuing offence, to a penalty not exceeding £50 a day during which the offence continues [Section 39 (2) of the 1923 Act, and Section 23 of the 1909 Act].

Collectors and Other Persons

If any collector of an Office or other person contravenes or fails to comply with any of the provisions of the 1923 Act affecting him, he is liable on summary conviction to a fine not exceeding £50 [Section 39 (3)].

Falsification of Collecting Book or Premium Receipt Book

If any person wilfully makes, orders, or allows any entry or erasure in or omission from a collecting book or premium receipt book, with intent to falsify the book, or to evade any of the provisions of the 1923 Act, he is liable to a fine not exceeding £50 and three months' imprisonment (Section 40).

Person or Persons Illegally Carrying on Industrial Assurance Business

Where any body of persons, not being a collecting society or industrial assurance company, as defined by the 1923 Act, carries on industrial assurance business, any director, manager, secretary, or other officer or agent of that body who is knowingly a party to the carrying on of such business shall, unless that body is exempted from the provisions of the Act, be guilty of an offence under the Act, and be liable on summary conviction to a fine not exceeding £50 for each day during which the offence continues. For a second offence three months' imprisonment may be imposed. In addition to any other penalty, such persons are liable to pay to the owner of any policy they may have issued, such sum as an Office would have to pay under the Act in respect of an illegal policy which had knowingly been issued [Section 39 (4)].

Limitation of Time for Taking Proceedings

Summary proceedings for offences may be commenced at any time within one year of the first discovery thereof by the Commissioner, but not after more than three years from the commission of the offence [Section 39 (5)].

Application of Fines Towards Costs

The court of law by which a fine is imposed may direct that the whole or any portion of it shall be applied towards the payment of the costs of the proceedings. Any balance of the fine is to be paid into the Exchequer [Section 39 (6)].

CHAPTER XVII

TAXATION

THE liability of Insurance Offices to income tax is regulated by the Income Tax Act, 1918, and subsequent enactments.

The Income Tax Act, 1918, enacts that income tax shall be charged in respect of all property, profits, or gains which are described under five headings, termed Schedules A, B, C, D, and E. Each of these Schedules has numerous Rules governing its application.

Insurance Offices are charged mainly under Schedule D, which covers—

(*a*) Annual profits or gains arising or accruing to any person residing in the United Kingdom from any property, trade, or profession, whether situate or carried on in the United Kingdom or elsewhere; and

(*b*) All interest of money, annuities, and other annual profits or gains not charged under Schedule A, B, C, or E.

In addition to income tax under Schedule D, Insurance Offices pay a relatively small amount of income tax under Schedules A and C.

Schedule A provides for the taxation of the annual value (as defined in I.T.A.,[1] 1918) of land and buildings.

Schedule C provides for the taxation of all profits arising from interest, annuities, etc., payable out of any public revenue.

Schedules B and E are of little interest to Insurance Offices.

ASSESSMENT OF LIFE OFFICES

Where an Insurance Office carries on life assurance business in conjunction with insurance business of any other class, the life assurance business must be treated as a separate business from any other class for income tax purposes [I.T.A., 1918, Schedule D, Cases I and II, Rule 15 (1)]. The term "life assurance business" as used here includes the business of granting annuities (I.T.A., 1918, Section 237). Industrial assurance business must be treated separately from ordinary life assurance business for income tax purposes [F.A., 1923, Section 16 (3)].

BASIS OF ASSESSMENT OF LIFE OFFICES

Life assurance business is subject to a dual basis of assessment. Income tax is payable on the greater of the amounts—

(1) *interest income less expenses (including commission), or*

(2) *profits.*

[1] I.T.A. is abbreviation for Income Tax Act; F.A. is abbreviation for Finance Act.

"Profits" are represented by any portion of the surplus of a fund which is applied for any purpose, excluding amounts belonging to, allocated to, reserved for, or expended on behalf of, the policyowners [F.A., 1923, Section 16 (1)]. In effect, "profits" are represented by that portion of the surplus which is taken by shareholders, although in certain circumstances amounts allocated to reserves or for other purposes are included. Payments to a Staff Pension Fund are not chargeable as profits if the Fund has been approved and the amounts are reasonable.

Mode of Payment of Income Tax

Whether the ultimate basis of assessment is "interest income less expenses (including commission)" or "profits," the method of payment of income tax is the same, i.e. the Office pays, either by deduction at source (see below) or directly, income tax on its interest income, and subsequently claims a repayment. In order to determine the amount of the repayment claim, the Office must, after the end of the financial year when the accounts have been made up, ascertain the amount of income on which tax has been paid (either by deduction or directly) and also the amount of the assessment. The former will normally exceed the latter, and the income tax on the difference is the amount of repayment claimed.

"Interest Income Less Expenses" Basis of Assessment

Interest Income

Income tax is deducted from the greater proportion of the interest which a Life Office receives on its invested funds before the interest is sent to the Office. The payers of the interest are responsible for accounting to the inland revenue authorities for the amounts so deducted. Income tax treated in this manner is said to be deducted "at source."

Any interest received by the Office from which income tax has not already been deducted, generally referred to as "untaxed interest," must be accounted for independently, and income tax thereon must be remitted to the authorities. Untaxed interest arises from dividends on certain British Government securities (notably 3½ per cent War Loan), on loans on policies, bank interest, etc.

A Life Office is assessed for income tax on the working of the Office financial year, which generally ends on the 31st December [F.A., 1926, Section 34 (1) (*a*)], and, as indicated above, it is necessary to ascertain the total interest income on which tax has been paid during that period. This comprises interest income

received during the year from which income tax has been deducted at source, together with untaxed interest in respect of which income tax has been assessed for the year and paid. It includes rents which are derived from land and house property. As previously stated, property of this nature is assessed under Schedule A, and income tax thereon is remitted independently to the authorities. Certain of the property will be in the Office's own occupation, and the interest income figure would have to be adjusted if credit has been taken in the accounts for a lesser amount as rent than the amount of the Schedule A assessments upon which income tax has been paid.

The final figure for interest income on which tax has been paid during the year will therefore differ from the figure for "Interest, Dividends, and Rents" appearing in the Revenue Account.

Expenses (including Commission)

The Office is entitled to a repayment of income tax upon an amount equal to its expenses of management (including commission) (I.T.A., 1918, Section 33).

The sum of the items appearing in the accounts as Expenses of Management and Commission must be adjusted before a claim for repayment of income tax can be made, by—

(*a*) *Additions.*

(1) Investment expenses treated as capital in the Accounts and therefore not appearing in the item Expenses of Management. These include solicitors' charges on mortgages, brokerage, commission, registration fees and revenue stamps on Stock Exchange transactions.

(2) Pensions treated as life annuities.

(3) Other items of a similar nature.

(*b*) *Deductions.*

(1) Fines and fees. [I.T.A., 1918, Section 33 (1) (*b*).]

(2) Charitable donations.

(3) Expenditure of a capital nature.

(4) Expenses such as repairs which are allowable under the Schedule A assessments.

(5) Profit on reversions. [I.T.A., 1918, Section 33 (1) (*b*).] The usual method of ascertaining profit on reversions is to take the reversions falling in during the year less the original cost and subsequent outlay. In calculating profits arising from reversions the Office may set off against those profits any loss arising from reversions in respect of any previous year. [I.T.A., 1918, Section 33 (1) (*c*).]

(6) Profit on annuities less loss. Since the Industrial Branch is treated separately from the Ordinary and Annuity Branch, it is not affected by this particular adjustment.

Notice of a claim for repayment of income tax in respect of

expenses of management (including commission) must be submitted to the authorities within twelve months after the expiration of the year of assessment for which the claim is made [I.T.A., 1918, Section 33 (2)].

Profits Basis of Assessment

Assuming that the "interest income" for the year upon which income tax has been paid has been ascertained, and a statement of "expenses (including commission)" has been prepared, the Office will normally send this statement to the income tax authorities and obtain a repayment equal to income tax on the expenses. In this manner it will, in effect, have paid tax on "interest income less expenses (including commission)." If, however, "profits" exceed "interest income less expenses (including commission)," the Office must pay tax on the excess, and it will do so by reducing the statement of "expenses (including commission)" by the amount of the excess, so that in effect "profits" become the basis of assessment.

Assessment of Industrial Business

Expenses of conducting industrial business are relatively heavy, and it generally happens that "interest income" less "expenses (including commission)" is a negative quantity. An Office may not claim a refund of a larger sum than it has paid by way of income tax on its "interest income," so that the claim is limited to this amount.

The effect of this basis of assessment would be that the Office received its interest income free of income tax, but the alternative basis of "profits" comes into operation. The Office is therefore in a position to claim the refund of an amount equal to the income tax paid on its "interest income" less the income tax on "profits." In other words, the Office only pays tax on "profits" as defined on page 184.

In an Office transacting ordinary life and annuity business in addition to industrial business, the allocation of the various items involved in a claim for refund of income tax becomes a matter of some complexity. Allocations to reserves have to be considered carefully in regard to whether they result in a transfer of surplus for the benefit of another class of business in such a manner as to come under the heading "profits" and, therefore, to be subject to income tax.

In contradistinction to the basis of assessment of industrial business it is to be noted that as expenses of conducting ordinary business are relatively light, it very seldom happens that "profits" form the basis of assessment of that class.

FINANCE (No. 2) ACT, 1940

An important relief was afforded by Sections 9 (3) and 9 (4) of the above Act to those life assurance offices which are assessed on an "interest income less expenses" basis.

The Sections provide that in any year for which the standard rate of income tax exceeds 7s. 6d. in the £1 an Office shall be entitled to a refund equal to the excess of the tax actually borne by the Office over the tax that would have been borne if the standard rate of income tax had been 7s. 6d. in the £1, on that part of the income as, in the opinion of the Commissioners of Inland Revenue, belongs to, or is allocated to or reserved for, or expended on behalf of policyholders.

The Commissioners have laid it down that the investment income which is to be regarded as belonging to, allocated to or reserved for, or expended on behalf of policyholders, is the full investment income less (*a*) an amount equal to the amount of Management Expenses which are the subject of relief under Section 33 of the I.T.A., 1918, and (*b*) an amount equal, in effect, to the shareholders' profits.

So long as the concession operates, the Exchequer is to some extent compensated because the tax relief allowed to individuals in respect of life assurance premiums (see page 189) is to be on the basis of a standard rate of income tax of 7s. in the £1, which means that relief is to be limited to 3s. 6d. in the £1 on policies effected after 22nd June, 1916.

NATIONAL DEFENCE CONTRIBUTION (N.D.C.)

This tax was imposed by the F.A., 1937, as a charge on trading and business profits in excess of £2000 arising in the prescribed "chargeable accounting periods" as from 1st April, 1937. It was originally intended to be operative for a period of five years, expiring 31st March, 1942, but the F.A., 1942, provided that it should remain in force until such date as Parliament may determine. A "chargeable accounting period" corresponds normally with the usual income tax accounting period or such part of it as falls within the years of charge to N.D.C. The tax for bodies corporate is 5 per cent of the profits, if these exceed £12,000. If the profits are less than £12,000 but more than £2000 they are reduced by one-fifth of the difference between £12,000 and the profits, and the tax is 5 per cent of the resulting figure.

Except for certain special variations, profits are to be computed for N.D.C. on the same general principles as are adopted in the computation of profits for income tax purposes, and therefore, in the case of life assurance companies, deductions

are allowed for amounts of profit belonging to, allocated to, reserved for, or expended on behalf of policyholders or annuitants. The majority of the special variations which are referred to above are provided for in the Fourth Schedule of the F.A., 1937, and perhaps the most important of them is that a deduction from the profits of an assurance company is allowed for the purposes of N.D.C. in respect of that part of its income which is derived from its ordinary or preference shareholdings in any other companies which are chargeable to N.D.C.

N.D.C. tax paid is allowed as a deduction from profits for income tax, but not for N.D.C.

EXCESS PROFITS TAX (E.P.T.)

This tax was imposed by the Finance (No. 2) Act, 1939, as a charge operative as from 1st April, 1939, on the excess of trading and business profits arising in the prescribed "chargeable accounting periods" over those which arose in the "standard period." The "chargeable accounting period" corresponds normally with the usual income tax accounting period, and the standard period is, at the option of the taxpayer, the year 1935, or the year 1936, or the years 1935 and 1937, or the years 1936 and 1937. Where the standard period is two years, the standard profits are half the profits of those two years. The charge for the period beginning 1st April, 1939, and ending 31st March, 1940, was three-fifths of the excess profits. Since 31st March, 1940, the charge has been equivalent to the whole of the excess profits.

Deficiencies of profits as compared with standard profits entitle the taxpayer to claim back wholly or in part the excess profits tax paid in previous years.

Excess profits tax is not payable in addition to N.D.C. Of the two taxes, N.D.C. alone was operative during the period from 1st April, 1937, to 31st March, 1939. As from 1st April, 1939, the higher of the two taxes, computed from 1st April, 1939, to the end of the accounting period under consideration, is payable.

Except for minor variations, profits for the purposes of E.P.T. are to be computed on the same general principles as those adopted in the computation of profits for income tax purposes.

An adjustment is to be made to the standard profits in respect of increased or decreased average capital employed in the business during a chargeable accounting period as compared with average capital employed in a standard period. The adjustment is effected by adding to the standard profits 8 per cent of the increased capital or deducting from the standard profits 6 per cent of the decreased capital as the case may be. "Capital" is

to be computed by taking into account assets at cost less depreciation, less borrowed money and debts. The value of the assets is to be subject to any other such deductions as are allowable in computing profits for the purpose of income tax, including accruing liabilities (such as actuarial reserves) and any profits belonging to life policyholders or annuitants in the terms of Section 16 (1) of the F.A., 1923. The effect of these provisions is that "Capital" of a life assurance business consists of—

(1) the paid-up shareholders' capital, if any, which is applicable to life assurance business; and

(2) the shareholders' share of the profits computed on E.P.T. lines.

As it is only increase or decrease of capital which is of importance, the adjustment to be made to the standard profits on account of increased or decreased capital is arrived at by reference to those profits, calculated on an E.P.T. basis, which are made after the beginning of the standard period.

In practice very few life assurance offices can be liable to pay E.P.T., which is a tax designed primarily to prevent the making of profits out of the war. Life assurance offices are adversely affected by the war because of war death claims, increased expenses, heavier income tax, and the low rate of interest obtained on new investments.

Collecting Societies

Collecting societies, being registered friendly societies, are not liable for payment of any of the taxes mentioned in this chapter, and they obtain a return of all income tax deducted at source [I.T.A., 1918, Section 39 (1)].

Rebate of Income Tax in Respect of Premiums Paid

Where the owners of industrial assurance policies pay income tax, a rebate of income tax may be obtained in respect of premiums paid to the same extent and with the same limitations as apply to premiums on policies in the ordinary branch.

APPENDIX I

INDUSTRIAL ASSURANCE ACT, 1923

[13 & 14 GEO. 5. CH. 8]

An Act to consolidate and amend the law relating to Industrial Assurance, and to make provision with respect to war bond policies and policies to which the Courts (Emergency Powers) Act, 1914, applies, and bond investment business. A.D. 1923.

[7th June, 1923.]

BE it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows—

Industrial Assurance Business

Industrial assurance business. 9 Edw. 7, c. 49.

1.—(1) Industrial assurance business shall not be carried on except by a registered friendly society or by an assurance company within the meaning of the Assurance Companies Act, 1909, which is either registered under the Companies Acts, or the Industrial and Provident Societies Acts, 1893 to 1913, or incorporated by special Act, and a registered friendly society which carries on such business is in this Act referred to as a collecting society and an assurance company which carries on such business is in this Act referred to as an industrial assurance company:

Provided that, where an industrial assurance company carries on both industrial assurance business and other business, nothing in this Act shall, save as otherwise expressly provided, apply to any of the business of the company other than the industrial assurance business.

(2) For the purposes of this Act, "industrial assurance business" means the business of effecting assurances upon human life premiums in respect of which are received by means of collectors:

Provided that such business shall not include—

(*a*) assurances the premiums in respect of which are payable at intervals of two months or more;

(*b*) assurances effected whether before or after the passing of this Act by a society or company established before the date of the passing of this Act which at that date had no assurances outstanding the premiums on which were payable at intervals of less than one month so long as the society or company continues not to effect any such assurances;

(*c*) assurances effected before the passing of this Act, premiums in respect of which are payable at intervals of one month or upwards, and which have up to the commencement of this Act been treated as part of the business transacted by a branch other than the industrial branch of the society or company;

(*d*) assurances for twenty-five pounds or upwards effected after the passing of this Act, premiums in respect of

which are payable at intervals of one month or upwards, and which are treated as part of the business transacted by a branch other than the industrial branch of the society or company, in cases where the Commissioner hereinafter mentioned certifies that the terms and conditions of such assurances are on the whole not less favourable to the assured than those imposed by this Act.

(3) When a society or company has ceased to effect industrial assurances, it shall, so long as it continues liable on the assurances previously effected, be deemed to carry on industrial assurance business.

Industrial Assurance Commissioner.

2.—(1) The Chief Registrar of Friendly Societies shall be the authority charged with such powers and duties in relation to industrial assurance as are conferred and imposed upon him by this Act, and in that capacity and in the exercise and performance of the powers and duties of the Chief Registrar of Friendly Societies under the Friendly Societies Acts, 1896 and 1908, in relation to collecting societies he shall, as from the passing of this Act, be known as and styled the Industrial Assurance Commissioner, and is in this Act referred to as the Commissioner, and anything which under the Friendly Societies Acts, 1896 and 1908, is authorised or required to be done by, to or before the central office or the registrar or an assistant registrar shall, where the society is a collecting society, be done by, to or before the Commissioner.

59 & 60 Vict. c. 25. 8 Edw. 7, c. 32.

(2) Anything which under this Act is required or authorised to be done by, to or before the Commissioner may be done by, to or before such person as he may appoint for the purpose.

Purposes for which policies may be issued.

3.—Amongst the purposes for which collecting societies and industrial assurance companies may issue policies of assurance there shall be included insuring money to be paid for the funeral expenses of a parent, child, grandparent, grandchild, brother, or sister, and the issuing of such policies shall be treated as part of the industrial assurance business of the society or company.

Assurances on children's lives.

4.—(1) The provisions of sections sixty-two and sixty-four to sixty-seven of the Friendly Societies Act, 1896, relating to payments on the death of children shall extend to industrial assurance companies as if those provisions were herein re-enacted, and in terms made applicable to industrial assurance companies. Except that there shall be substituted for the words "of six pounds for children under five years of age and ten pounds for children under ten years of age" the following: "six pounds for children under three years of age, ten pounds for children up to six years of age, and fifteen pounds for children up to ten years of age."

(2) A collecting society or an industrial assurance company shall not pay any sum on the death of a child under ten years of age except to the person who took out the policy on the life of the child, being the parent, grandparent, brother or sister of the child, or to the personal representative of that person, nor except upon production by the person claiming payment of a certificate of death issued by the registrar of deaths, or other person having the care of the register of deaths, containing the particulars mentioned in section sixty-four of the Friendly Societies Act, 1896:

Provided that, where there is no personal representative of the person who took out the policy, the payment may be made to such one of the next of kin of that person as proves that he has defrayed, or undertakes to defray, the funeral expenses of the child.

(3) The provisions of this section shall extend to assurances by industrial assurance companies premiums in respect of which are payable at intervals of two months or more.

(4) Section sixty-three of the Friendly Societies Act, 1896, shall cease to apply to collecting societies.

Prohibition on issue of illegal policies.

5.—(1) Any collecting society or industrial assurance company which issues policies of industrial assurance which are illegal or are not within the legal powers of the society or company shall be held to have made default in complying with the provisions of this Act, and, where any such policy has been issued, the society or company shall, without prejudice to any other penalty, be liable to pay to the owner of the policy a sum equal to the surrender value of the policy (to be ascertained in manner hereinafter provided), or, if the policy was issued after the commencement of this Act, a sum equal to the amount of the premiums paid, unless it is proved that owing to any false representation on the part of the proposer, the society or company did not know that the policy was illegal or beyond their legal powers.

(2) No collector of, or person employed by, a society or company shall knowingly assist in effecting a policy of industrial assurance which is illegal or not within the legal powers of the society or company.

Special Provisions as to Collecting Societies

Name of collecting societies.

6.—In the case of any collecting society registered after the thirty-first day of December, eighteen hundred and ninety-five, or of a society which becomes a collecting society after the passing of this Act, the last words in the name of the society shall be "collecting society," and the society shall use its registered name on all documents issued by it and no other name.

Deposits by collecting societies.

7.—(1) Every collecting society shall be under the like obligation to deposit and keep deposited the sum of twenty thousand pounds as an industrial assurance company, and section two of the Assurance Companies Act, 1909, as applied by this Act to industrial assurance companies, shall apply accordingly, subject in its application to collecting societies to the following modifications—

(*a*) For references to the Board of Trade, there shall be substituted references to the Commissioner:

(*b*) Subsection (3) shall not apply:

(*c*) In the case of a society registered and carrying on industrial assurance business at the passing of this Act, the deposit shall be made before the commencement of this Act; but in any particular case the Commissioner shall, if satisfied as to the financial position of the society at the time of the passing of this Act, postpone the time for making the deposit to some time within five years after the commencement of this Act, and shall, on the application of the society from time to time, further postpone the time

for making the deposit if he is still satisfied as to the financial position of the society, but not for more than five years at any one time:

(*d*) In the case of a society commencing to carry on industrial assurance business after the passing of this Act, the deposit shall be made before the society commences to carry on such business:

(*e*) In the case of a society applying after the passing of this Act for registry under the Friendly Societies Act, 1896, or for the registry of amendments of its rules, if the proposed rules of the society or the proposed amendments are such as will enable the society to carry on industrial assurance business, the Commissioner shall not issue to the society an acknowledgment of registry of the society or of amendment of rules, as the case may be, until the deposit has been made:

(*f*) A collecting society shall not be required to make a deposit in respect of any business other than industrial assurance business, but, subject as aforesaid, subsection (4) of the said section shall apply.

(2) If a society feel aggrieved at a refusal of the Commissioner to allow further time for making a deposit under paragraph (*c*) of subsection (1) of this section, the society may, with the leave of the court, appeal to the High Court or, in the case of a society registered in Scotland, to the Court of Session.

(3) If the Commissioner is satisfied that a collecting society has made default in complying with the provisions of this section, the Commissioner may award that the society be dissolved and its affairs wound up.

(4) This section, so far as it relates to a society commencing to carry on industrial assurance business or applying for registration or for registration of an amendment of rules enabling it to carry on industrial assurance business after the passing of this Act, shall come into operation on the passing of this Act.

(5) Where the rules of a collecting society (hereinafter in this subsection referred to as a subsidiary society) whether registered before or after the passing of this Act, provide that the management of that society shall be vested in the committee of management of some other friendly society (hereinafter in this subsection referred to as the principal society) which was registered before the fourth day of August, nineteen hundred and twenty-one, then—

(*a*) the principal society may make on behalf of the subsidiary society the deposit required to be made by this section and may apply any of its funds for that purpose, and in that case the interest on the deposit, or the securities in which the deposit is for the time being invested, shall be paid to the principal society and not to the subsidiary society; or

(*b*) the principal society may guarantee the liabilities of the industrial assurance fund of the subsidiary society to the extent of twenty thousand pounds in such manner and subject to such amendment of rules as the Commissioner may require, and the

principal society may amend its rules accordingly; and if the Commissioner is satisfied with such guarantee he may accept the guarantee in lieu of the deposit required by this section.

Where the principal society is a society with branches, the rules of the society may provide for the central body of the society borrowing from the branches and the branches lending to the central body funds required for making such a deposit as aforesaid.

Provisions to be contained in rules.

8.—(1) The rules of a collecting society shall provide—

(*a*) for a separate account being kept of all receipts in respect of the industrial assurance business transacted by the society, and for those receipts being carried to and forming a separate fund under the name of the industrial assurance fund; but nothing in this provision shall be construed as requiring the investments of the industrial assurance fund to be kept separate from the other investments of the society;

(*b*) for the industrial assurance fund being as absolutely the security of the owners of the industrial assurance policies as though it belonged to a society carrying on no business other than industrial assurance business, and not being liable for any contracts of the society for which it would not have been liable had the business of the society been only that of industrial assurance, and not being applied directly or indirectly for any purposes other than those of the industrial assurance business of the society, so however as not to affect the liability of that fund to the prejudice of persons interested in contracts entered into by the society before the fourteenth day of February, nineteen hundred and twenty-three;

(*c*) for separate valuations being made of the industrial assurance business of the society.

(2) Save as otherwise provided by the rules of a collecting society, being rules registered before the fourth day of August, nineteen hundred and twenty-one—

(*a*) the rules of a collecting society shall contain the tables in accordance with which policies of industrial assurance are issued by the society; and

(*b*) no policy shall be issued by a collecting society otherwise than in accordance with the rules of the society and with the tables for the time being in force as set forth in those rules.

(3) Such of the provisions of this Act as are mentioned in the First Schedule to this Act shall be set forth in the rules of every collecting society.

Obligation to deliver policies and copies of rules.

9.—(1) A collecting society shall deliver free of charge to every person on his becoming a member of or insuring with the society a printed policy signed by two of the committee of management and by the secretary, together with a copy of the rules of the society in force at the time:

Provided that—

(*a*) in the case of a family enrolled in one book or card, one family policy and one copy of the rules shall be sufficient;

(*b*) if the rules of the society in force at the time of the issue of the policy are printed in easily legible type on the policy, it shall not be necessary to deliver a copy of the rules in addition to the policy.

(2) A collecting society shall also supply to any such person at his request free of charge a copy of any subsequent amendment of the rules of the society.

(3) A collecting society shall also deliver to any member or other person on demand and on payment of a sum not exceeding one shilling, a copy of the rules of the society in force at the time.

Exemptions, total and partial.

10.—(1) The Commissioner may, on the application of a society registered or applying for registry, grant to the society a certificate of exemption from all or any of the provisions of this Act, in any case where he is satisfied that the society does not or will not carry on the business of effecting assurances upon human life, premiums in respect of which are received by means of collectors at a greater distance than ten miles from the registered office of the society, and where he is of opinion that the society is not one to which those provisions ought to apply.

(2) A certificate of exemption under this section shall be granted subject to the condition that the society will not employ collectors to receive premiums on policies issued by the society at a greater distance than ten miles from the registered office of the society, and, if in the case of any society to which a certificate of exemption has been so granted, the said condition is at any time not complied with, the society and any collector so employed shall be deemed to have contravened the provisions of this Act, and this Act shall be deemed as from the date of such non-compliance to have applied to the society as if no such certificate of exemption had been granted to it.

(3) The certificate shall be subject to revocation by the Commissioner, but shall remain in force until so revoked, and until notice of the revocation has been advertised in the *Gazette* and in some newspaper in general circulation in the neighbourhood of the registered office of the society, and also transmitted by registered letter to the society.

59 & 60 Vict., c. 26.

(4) Where at the commencement of this Act there is in force a certificate of exemption issued under section eleven of the Collecting Societies and Industrial Assurance Companies Act, 1896, or the corresponding provision of any Act repealed by that Act, the certificate shall, after the commencement of this Act, continue in force until revoked and have effect as if it were a certificate issued under this section exempting the society from all the provisions of this Act.

Special provision as to juvenile societies.

11.—(1) Where a juvenile society within the meaning of this section established before the passing of this Act has been accustomed to receive contributions from its members by means of collectors, the provisions of this Act shall not apply to the society before the first day of January, nineteen hundred and twenty-five, and, if any such society is or has before that date become registered, the Commissioner may, if he considers that the society is one to which the provisions of this Act ought not to apply, grant to the society a certificate of exemption from the provisions of this Act subject to the like

power of revocation as in the case of certificates of exemption granted under the last preceding section.

(2) For the purposes of this section, "juvenile society" means a friendly society or branch thereof, whether registered or unregistered, admission to membership whereof is by its rules limited to persons under eighteen years of age, and which satisfies the Commissioner that it is established for the purpose of recruiting members for another friendly society or for the society of which it is a branch.

Special Provisions as to Industrial Assurance Companies

Application of Act of 1909 to industrial assurance companies.

12.—(1) Industrial assurance business shall, for the purposes of the Assurance Companies Act, 1909, be treated as a separate class of assurance business, and accordingly a separate deposit shall be made in respect of that business as required by section two of that Act.

(2) In relation to industrial assurance business, anything which under the Assurance Companies Act, 1909, is required or authorised to be done to, by, or with the Board of Trade or the President of the Board of Trade shall or may be done to, by, or with the Commissioner and the provisions of that Act shall have effect accordingly:

Provided that, where the company transacts other business besides that of industrial assurance business, nothing in this subsection shall affect the powers and duties of the Board of Trade or the President of the Board of Trade under the said Act in relation to that other class of business; and, where any document required under the said Act to be sent to the Board of Trade relates both to industrial assurance business and to other assurance business, the document shall be sent both to the Commissioner and to the Board of Trade.

(3) In its application to industrial assurance business the Assurance Companies Act, 1909, shall have effect subject to the following modifications—

(*a*) The provisions relating to life assurance business shall apply also to industrial assurance business with the substitution of references to "industrial assurance business" and "the industrial assurance fund" for references to "life assurance business" and "the life assurance fund";

(*b*) Where any expenses of management, or interest or dividends from investments, or sums on account of depreciation of securities, are apportioned between the industrial assurance business and any other business transacted by the company, the auditor shall include in his report a special report as to the propriety or otherwise of the apportionment:

(*c*) A copy of every report of the auditor of the company shall be furnished to the Commissioner.

(*d*) The Commissioner may refuse to issue a warrant for a deposit under section two of the said Act if he considers that it is inexpedient that the company should be authorised to carry on industrial assurance business, but in the case of such refusal the company may appeal to the court, and the Commissioner shall be entitled to appear and be heard on any such appeal:

(*e*) On a petition under section thirteen of the said Act (which relates to the amalgamation of companies and the transfer of business from one company to another) the Commissioner shall be entitled to be heard, and on any such hearing the Commissioner may apply to the court to exercise its powers under paragraph (*b*) of subsection (3) of that section of directing that the requirements of that paragraph shall be dispensed with or modified:

(*f*) On any such petition, any class of persons (including employees of any company concerned) who allege that they are adversely affected by the amalgamation or transfer, shall be entitled to appear and to be heard:

(*g*) The independent actuary referred to in paragraph (*b*) of subsection (3) of the said section thirteen shall be appointed by the President of the Institute of Actuaries or by the President of the Faculty of Actuaries in Scotland on the application of the Commissioner and shall make his report to the Commissioner, by whom copies thereof shall be sent to each company concerned in the amalgamation or transfer, and each such company shall, unless the court otherwise directs, transmit copies thereof to the owner of each policy of the company in manner provided by that section:

(*h*) The said section thirteen shall apply to any transfer from one company to another, howsoever effected, of the liabilities or of any of the liabilities arising in respect of industrial assurance business in like manner as if such transfer were a transfer of the industrial assurance business.

Prohibition charges on industrial assurance fund.

13.—An industrial assurance company shall not, after the commencement of this Act, issue any debentures or debenture stock, or raise any loan, charged or purporting to be charged on any assets of the company in which the industrial assurance fund is invested, and any such charge shall be void:

Provided that this section shall not apply to a temporary bank overdraft.

Act to have effect notwithstanding memorandum, articles or special Act.

14.—The provisions of this Act shall have effect notwithstanding anything in the memorandum or articles of association or rules or special Act of any industrial assurance company:

Provided that nothing in this Act shall affect the liability of the industrial assurance fund or of the life assurance fund in the case of a company established before the commencement of this Act to the prejudice of persons interested in contracts entered into by the company before that date.

Accounts, Returns, Inspection, Valuations, Meetings

Balance sheets and audit.

15.—(1) A copy of every balance sheet of a collecting society shall, during the seven days next preceding the meeting at which the balance sheet is to be presented, be kept open by the society for inspection at every office at which the business of the society is carried on, and shall be delivered or sent by post to any member or person interested in the funds of the society, on demand.

(2) The audit of accounts required by section twenty-six of the Friendly Societies Act, 1896, shall, in the case of a collecting society, be made by a public auditor appointed under that Act, and, if such accounts have not been so audited, the provisions of section twenty-seven of that Act requiring an annual return of the receipts, expenditure, funds and effects of the society as audited shall be deemed not to have been complied with.

Annual accounts and returns.

16.—(1) The Commissioner, after considering any representations made by or on behalf of the society or company affected, may, if it appears to him that any account, return, or balance sheet sent by a collecting society or an industrial assurance company in pursuance of the Friendly Societies Act, 1896, or the Assurance Companies Act, 1909, is in any particular incomplete or incorrect, or does not comply with the requirements of the Act applicable to the case, reject the account, return, or balance sheet and give such directions as he thinks necessary for the variation thereof.

(2) Where any direction so given entails a consequential alteration of any account, return, or balance sheet sent by an industrial assurance company to the Board of Trade, it shall be the duty of the company to make such consequential alteration therein.

Inspection.

17.—(1) If, in the case of any collecting society or industrial assurance company, in the opinion of the Commissioner there is reasonable cause to believe that an offence against this Act or against the Friendly Societies Act, 1896, or the Assurance Companies Act, 1909, has been, or is likely to be, committed, the Commissioner or any inspector appointed by him for the purpose shall have power to examine into and report on the affairs of the society or company, and for that purpose may exercise in respect of the society or company all or any of the powers given by subsection (5) of section seventy-six of the Friendly Societies Act, 1896, to an inspector appointed under that section.

(2) On himself holding such an inspection or on receiving the report of an inspector so appointed the Commissioner may issue such directions and take such steps as he considers necessary or proper to deal with the situation disclosed therein and in particular may in the case of a society award that the society be dissolved and its affairs wound up, and in the case of a company may present a petition to the court for the winding up of the company.

(3) The Commissioner may, if he considers it just, direct that all or any of the expenses of and incidental or preliminary to an inspection under this section shall be defrayed out of the funds of the society or company, or by the officers or former officers, or members or former members of the committee of management or board of directors of the society or company, or any of them in such proportions as the Commissioner directs and sums directed by him to be so paid shall be recoverable by him summarily as a civil debt: Provided that any society or company or person directed to pay any part of such expenses may, with the leave of the court, appeal against the direction to the High Court, or in the case of a society or company registered in Scotland to the Court of Session.

(4) This section shall come into operation on the passing of this Act.

Provisions as to valuations.

18.—(1) In the case of a collecting society or industrial assurance company, the following provisions shall have effect with regard to every valuation made as at the thirty-first day of December, nineteen hundred and twenty-four, or any later date—

(*a*) The valuation shall be made by an actuary as defined by the Assurance Companies Act, 1909, as modified by this Act;

(*b*) The basis of valuation adopted shall be such as to place a proper value upon the liabilities, regard being had to the mortality experience among the persons whose lives have been assured in the society or company, to the average rate of interest from investments and to the expenses of management (including commission), and shall be such as to secure that no policy shall be treated as an asset;

(*c*) The report containing the abstract of the result of the valuation required by section twenty-eight of the Friendly Societies Act, 1896, to be sent shall be sent by a collecting society to the Commissioner within twelve months after the close of the period to which the valuation relates, and shall contain a statement as to how the values of stock exchange securities (if any) included in the balance sheet are arrived at, and a certificate signed by the same persons as sign the balance sheet, to the effect that in their belief the assets set forth in the balance sheet are in the aggregate fully of the value stated therein less any investment reserve fund taken into account;

(*d*) Where the balance sheet of a society or company includes amongst the assets thereof any sums representing expenses of organisation or extension, or the purchase of business or goodwill, and the amount of the assets, exclusive of such sums (after deducting debts due by the society or company other than debentures and loans), is less than the amount of the industrial assurance fund, or, as the case may be, of the several assurance and insurance funds as shown in that balance sheet, the amount of the industrial assurance fund shown in the valuation balance sheet shall be reduced by the amount of the deficiency, or, as the case may be, by a sum bearing such proportion to that deficiency as the amount of the industrial assurance fund shown in the first-mentioned balance sheet bears to the aggregate amount of all the assurance and insurance funds so shown:

Provided that in the cases hereinafter mentioned this paragraph shall, during such periods as are hereinafter mentioned, apply to societies and companies subject to such relaxations of the stringency of the provisions thereof as the Commissioner may think just; that is to say—

(i) in the case of a society or company in the balance sheet of which last issued before the

passing of this Act any such sums as aforesaid were included, for a period of seven years after the passing of this Act;

(ii) in the case of a society or company which, after the date as at which the balance sheet last issued before the passing of this Act was made up, has under an amalgamation or transfer of engagements become liable for the engagements of any other society or company and has in consideration thereof accepted assets which include any such sums as aforesaid, or has in connection therewith incurred expenditure by way of purchase of business or goodwill, for a period of seven years after the thirty-first day of December next following the date of amalgamation or transfer of engagements;

(*e*) Where debentures have been issued or loans raised which are charged on any of the assets of the company in which the industrial assurance fund is invested, there shall be inserted in the valuation balance sheet a note giving the particulars of the charge and stating that the result shown by the valuation is subject to the liability under the charge;

(*f*) The Commissioner, if satisfied on any valuation that any of the foregoing provisions of this section have not been complied with, or that the industrial assurance fund as stated in the valuation balance sheet is greater than the value of the assets available for the liabilities of that fund, due regard being had to the other liabilities of the society or company and to the foregoing provisions of this section, may reject the valuation, and may direct the society or company to make such alteration therein as may be necessary to secure compliance with those provisions:

Provided that the society or company may appeal to the High Court, or in the case of a society or company registered in Scotland to the Court of Session, against any decision of the Commissioner under this paragraph;

(*g*) The Commissioner may direct any collecting society or industrial assurance company to furnish to him, in addition to such information as the society is required to furnish under section twenty-eight of the Friendly Societies Act, 1896, or the company is required to furnish under the Assurance Companies Act, 1909, all or any of such particulars as are mentioned in the Second Schedule to this Act, and such explanations as he may consider necessary in order to satisfy himself whether the valuation complies with the provisions of this section.

(2) Notwithstanding anything in section twenty-eight of the Friendly Societies Act, 1896, or section five of the Assurance Companies Act, 1909, the first valuation under this Act shall, in the case of any collecting society and industrial assurance company, be made as at a date not later than the thirty-first day of December, nineteen hundred and twenty-five.

(3) If in the case of a collecting society or industrial assurance company a valuation, whether made before or after the

passing of this Act, discloses a deficiency, the Commissioner may, if after investigation he is satisfied that the society or company should cease to carry on industrial assurance business, award that the society be dissolved and its affairs wound up, or, in the case of a company, present a petition to the court for the winding up of the company:

Provided that the Commissioner shall not, during the first five years after the passing of this Act, take action under this subsection if he is satisfied that substantial measures are being taken to improve the financial condition of the society or company.

General meetings.

19.—(1) At least one general meeting of every collecting society and industrial assurance company shall be held in every year.

(2) Except where the day, hour, and place of an annual or other periodical meeting is fixed by the rules, notice of every general meeting shall either be given by the society or company to the members by advertisement to be published at least twice in two or more of the newspapers in general circulation in every county where the society or company carries on business, or be served upon every member.

(3) The notice shall specify the day, hour, and place, and the objects of the meeting, and, in case any amendment of a rule is intended to be proposed, shall contain a copy of every such amendment.

(4) The society or company shall publish the last of such advertisements, or serve such notice as aforesaid, at least fourteen days before the day appointed for the meeting, and shall, during those fourteen days, keep a copy of the notice in legible characters affixed in some conspicuous place in or outside every office at which the business of the society or company is carried on.

Rights of Owners of Policies

Provisions as to proposals for policies.

20.—(1) Every proposal for an industrial assurance policy shall, except—

(*a*) where the policy is taken out on the life and on behalf of a child under the age of sixteen; or

(*b*) where the policy assures a payment of money for the funeral expenses of parent, child, grandparent, grandchild, brother, or sister; or

(*c*) where the person whose life is to be assured under the policy is a person in whom the proposer has an insurable interest;

contain a declaration by the person whose life is to be assured that the policy is to be taken out by him, and that the premiums thereon are to be paid by him.

Where the person whose life is to be assured under the policy is a person in whom the proposer has an insurable interest, the proposal shall contain a statement of the nature of that interest.

(2) A collecting society or industrial insurance company shall not, nor shall any collector or agent of such a society or company, issue a proposal form or accept a proposal which does not comply with the foregoing provisions of this section.

(3) If the proposal contains a statement that the person whose life is proposed to be assured is not at the time of

making the proposal a person on whose life another policy has been issued by the society or company, and a policy is issued in pursuance of the proposal, the society or company shall be liable under the policy, notwithstanding that the statement is not true, and the truth of the statement is made a condition of the policy.

(4) If a proposal form for an industrial assurance policy is filled in wholly or partly by a person employed by the society or company, the society or company shall not, except where a fraudulent statement in some material particular has been made by the proposer, be entitled to question the validity of the policy founded on the proposal on the ground of any misstatement contained in the proposal form:

Provided that—

(*a*) if the proposal form contains a misstatement as to the age of the person whose life is proposed to be assured, the society or company may so adjust the terms of the policy, or of any policy which may be issued in substitution or in lieu thereof, as to make them correspond with the terms which would have been applicable if the correct age of the person had been originally inserted in the proposal;

(*b*) where but for this subsection the validity of a policy could have been questioned on the ground of any misstatement in the proposal form relating to the state of health of the person upon whose life the assurance is to be taken out at the date of the proposal, nothing in this subsection shall prevent such a question being raised, if raised within two years from the date of the issue of the policy founded on the proposal.

Forms of policies.

21.—(1) A policy of industrial assurance issued after the commencement of this Act shall set out the provisions of this Act mentioned in the Third Schedule to this Act, such of those provisions as are contained in Part II of that Schedule being printed in distinctive type, and in the case of a policy on the life of a child under ten years of age shall also set out in distinctive type a statement of the effect of section sixty-two of the Friendly Societies Act, 1896:

Provided that the policy may, if the Commissioner consents, in lieu of setting out the said provisions of this Act, contain a statement which, in the opinion of the Commissioner, sufficiently sets forth the effect of those provisions.

(2) Where a policy of industrial assurance issued after the commencement of this Act does not comply with the provisions of this section, the society or company effecting the insurance shall be guilty of an offence against this Act, and shall, without prejudice to any other liability, be liable to pay to the person by whom the premiums have usually been paid a sum equal to the amount of the premiums paid, which sum shall be recoverable summarily as a civil debt.

Return of policies and premium receipt books after inspection.

22.—If at any time a collecting society or industrial assurance company, or any person employed by such a society or company, take possession of a policy or premium receipt book or other document issued in connection with a policy, a receipt shall be given, and the policy book or document shall be returned to the owner of the policy within twenty-one

days, unless the policy has been terminated by reason of satisfaction of all claims capable of arising thereunder:

Provided that, where possession is taken of a policy, book or document for the purpose of legal proceedings to be taken by the society or company that issued the policy against a collector, it shall be lawful for the society or company to retain the policy, book or document so long as may be necessary for the purposes of those proceedings, but in that case if the policy, book or document is retained for more than twenty-one days, the society or company shall supply to the owner of the policy a copy thereof certified by the society or company to be a true copy.

Notice before forfeiture.

23.—(1) A forfeiture shall not be incurred by any member or person assured in a collecting society or industrial assurance company by reason of any default in paying any premium until after—

(*a*) notice stating the amount due from him, and informing him that in case of default of payment by him within twenty-eight days and at a place to be specified in the notice his interest or benefit will be forfeited, has been served upon him by or on behalf of the society or company; and

(*b*) default has been made by him in paying any premium in accordance with that notice.

(2) This section shall extend to contracts of assurance effected by a collecting society before the commencement of this Act which are not contracts of industrial assurance within the meaning of this Act.

Provisions as to forfeited policies.

24.—(1) Where notice of the forfeiture of a policy of industrial assurance by reason of default in the payment of any premium thereunder has been served on the owner of the policy, then if the policy—

(*a*) is a policy for the whole term of life or for a term of fifty years or upwards, the person whose life is assured under which is a person who is at the time of such default over fifteen years of age, and upon which not less than five years' premiums have been paid; or

(*b*) is a policy for a term of twenty-five years or upwards, but less than fifty years, upon which not less than five years' premiums have been paid; or

(*c*) is a policy for a term of less than twenty-five years upon which not less than three years' premiums have been paid;

the owner of the policy shall, on making application for the purpose to the collecting society or industrial assurance company within one year from the date of the service of the notice, be entitled—

(i) to a free paid-up policy for such amount as is hereinafter mentioned payable upon the happening of the contingency upon the happening of which the amount assured under the original policy would have been payable or of any other contingency not less favourable to the owner of the policy; or

(ii) if the owner of the policy is permanently resident or submits satisfactory proof of his intention to make his permanent residence outside Great Britain, the

Isle of Man and the Channel Islands, or if the person whose life is assured has disappeared and his existence is in doubt, to the surrender value of the forfeited policy ascertained in manner hereinafter provided.

(2) The amount of a free paid-up policy so issued as aforesaid shall not be less than such as may be determined in accordance with the rules contained in the Fourth Schedule to this Act, and shall be ascertained at the date when the premium following the last premium paid became due:

Provided that the amount of the free paid-up policy shall not exceed the difference between the amount of the forfeited policy (inclusive of any bonus added thereto) and the amount which would be assured by a corresponding policy at the same premium effected on the life of the same person according to the age of that person at his birthday next following the date of forfeiture.

(3) In every premium receipt book issued after the commencement of this Act there shall be printed a notice stating that in the event of the forfeiture, after the expiration of five years from the passing of this Act, of any policy of industrial assurance by reason of default in the payment of premiums thereunder, the owner of the policy shall, if the policy has been in force a sufficient period as provided by this section, be entitled to a free paid-up policy, or, if the conditions mentioned in paragraph (ii) of subsection (1) of this section are fulfilled, to the surrender value of his policy, and that upon application to the head office of the society or company information as to the amount of such free paid-up policy or surrender value will be supplied, and it shall be the duty of the society or company to supply such information.

(4) Where the rules of a society or the conditions of a policy are such as would confer on the owner of the policy in case of forfeiture rights more favourable to the owner of the policy than those conferred by this section, nothing in this section shall prevent the owner of the policy from claiming under those rules or conditions instead of under this section.

(5) This section shall not apply in the case of a forfeiture occurring before the expiration of five years after the passing of this Act.

Substitution of policies.

25.—(1) Where the owner of an industrial assurance policy agrees to accept a new policy in substitution therefor, the collecting society or industrial assurance company shall pay to the owner of the policy the surrender value (to be ascertained in manner hereinafter provided) of the old policy or shall issue to him a free paid-up policy of equivalent value, unless the value of the substituted policy, calculated in accordance with the rules set out in the Fourth Schedule to this Act, at the date of the substitution is equal to or exceeds such surrender value.

(2) In any such case the society or company shall furnish to the owner of the policy, with the new policy and new premium receipt book, a statement setting forth the rights of the owner under this section, and containing an account certified by the secretary of the society or company, or other officer appointed for the purpose, showing the surrender value of the old policy and the value of the new policy.

(3) Where a substituted policy is so issued and the value thereof is equal to or exceeds the surrender value of the old policy, then, for the purpose of determining whether the owner is entitled to a free paid-up policy or surrender value under the provisions of this Act relating to forfeited policies, the substituted policy shall be deemed to have been issued at the date at which the old policy was issued, and premiums shall be deemed to have been paid on the substituted policy in respect of the period between that date and the date at which the substituted policy was actually issued.

Transfers from one society or company to another.

26.—(1) A member of or person assured with a collecting society or industrial assurance company shall not, except in the case of—

(*a*) as respects a collecting society, an amalgamation, transfer of engagements or conversion into a company under the Friendly Societies Act, 1896, or this Act; or

(*b*) as respects an industrial assurance company, an amalgamation or transfer of business under the Assurance Companies Act, 1909, or this Act,

be transferred from the society or company in which he was so assured so as to become or be made a member of or be assured with any other such society or company without his written consent, or, in the case of an infant, without the like consent of his parent or other guardian, and any society or company and any collector or other officer of any society or company concerned in such a transfer shall, if the provisions of this section are not complied with, be deemed to have contravened the provisions of this Act.

(2) Such consent as aforesaid shall be in the prescribed form and shall have annexed thereto a document in the prescribed form to be furnished by the society or company to which the transfer is to be made setting out the terms of and rights under the existing policy, and the terms of and rights under the policy to which the assured will become entitled on transfer and the consideration (if any) which has been or is to be paid for the transfer and the person to whom such consideration has been or will be paid.

(3) The society or company to which the assured is sought to be transferred shall furnish to the person by whom such consent as aforesaid is signed a copy of such consent and of the document annexed thereto, and shall, within seven days from the date when such consent is signed, give to the society or company from which the assured is sought to be transferred notice of the proposed transfer containing full particulars of the name and address of the assured and the number of his policy, together with such consent as aforesaid, and the document annexed thereto.

(4) As from the date of the said notice, the society or company from which the person is sought to be transferred shall cease to be under any liability with respect to the policy in question and shall not be required to serve any notice of forfeiture of the policy in accordance with the foregoing provisions of this Act.

Payment of claims.

27.—Where a claim arising under a policy of industrial assurance is paid, no deductions shall be made on account of any arrears of premiums due under any other policy.

Policies to which 4 & 5 Geo. 5, c. 78 applies.

28.—(1) The Courts (Emergency Powers) Act, 1914, shall cease to be in force so far as it relates to the enforcement of lapses of policies of insurance.

(2) The owner of any policy to which the said Act applied shall be entitled at his option either—

(*a*) on payment at any time before the expiration of six months after the publication of such notice as is hereinafter mentioned of all arrears in premiums then due, to secure the maintenance of the policy; or

(*b*) on making application in writing for the purpose at any time before the expiration of six months after the publication of such notice as aforesaid, to have a new policy issued to him of such reduced amount, or, in the case of an endowment assurance policy modified in such manner, as having regard to the amount of the arrears may be determined under regulations made by the Commissioner to be proper to give effect to the loss occasioned by the non-payment of the arrears.

(3) Every collecting society and industrial assurance company shall, within three months after the passing of this Act, publish in such manner as the Commissioner may approve, notice of the rights under this section of the owners of policies to which the said Act applied.

(4) Where the person whose life is assured under any such policy has died before the passing of this Act or within nine months thereafter and the option hereinbefore conferred has not been exercised before his death, the society or company on application being made for the purpose within two years after the passing of this Act shall be liable to pay to the person entitled to receive the sum assured under the policy the amount thereof after deducting the amount of the arrears of premiums due at the date of death.

(5) This section shall come into force on the passing of this Act.

Value of policies.

29.—(1) Where for the purposes of this Act the value of a policy (including an illegal policy and a policy beyond the legal powers of a collecting society or industrial assurance company) has to be ascertained, the value of the policy shall be calculated in accordance with the rules set out in the Fourth Schedule to this Act.

(2) The surrender value of such a policy shall be an amount equal to seventy-five per cent of the value of the policy so calculated.

War bond policies.

30.—(1) The owner of any war bond policy existing at the passing of this Act shall be entitled to make application to the Commissioner alleging that the conditions of the policy are so unreasonable as to entitle him to claim relief under this section, and the Commissioner shall consider the application, and if he is of opinion, after giving the society or company an opportunity of being heard, that the conditions of the policy are such as to warrant such a course, he shall direct that so far as relates to lapse and surrender the policy and all other policies (if any) issued by the same society or company which contain the same conditions shall be modified in such manner as having regard to the legitimate interests of the society or company and the other owners of policies

appears to him just, and all policies to which the directions relate shall thereupon have effect as so modified:

Provided that any society or company may appeal to the High Court, or in the case of a society or company registered in Scotland the Court of Session, against any decision of the Commissioner under this section.

(2) For the purposes of this Act, "war bond policy" means a policy of life assurance, whether an industrial assurance policy or not, where the amount assured is payable in any securities issued in connection with any Government loan raised for the purposes of the war, or in such securities or in cash at the option of the owner of the policy.

(3) This section shall come into operation on the passing of this Act.

Saving for certain policies issued before 3rd Dec., 1909.

31.—No policy effected before the third day of December, nineteen hundred and nine, with a collecting society or an industrial assurance company, shall be deemed to be void by reason only that—

(*a*) the person effecting the policy had not, at the time the policy was effected, an insurable interest in the life of the person upon whose life the policy is taken out; or

(*b*) the name of the person interested, or for whose benefit or on whose account the policy was effected, was not inserted in the policy; or

(*c*) the assurance was not one authorised by the Acts relating to friendly societies;

if the policy was effected by or on account of a person who had at the time a bona fide expectation that he would incur expenses in connection with the death or funeral of the person whose life is insured, and if the sum assured is not unreasonable for the purpose of covering those expenses, and any such policy shall enure for the benefit of the person for whose benefit it was effected or his assigns.

Disputes

Disputes.

32.—(1) In all disputes between a collecting society or industrial assurance company, and

(*a*) any member or person assured; or

(*b*) any person claiming through a member or person assured, or under or in respect of any policy, or under the rules, or under this Act; or

(*c*) any person aggrieved who has ceased to be a member or any person claiming through such person aggrieved

that member or person may, notwithstanding any provisions of the rules of the society or company to the contrary, apply to the county court, or to a court of summary jurisdiction for the place where that member or person resides, and the court may (but in the case of a court of summary jurisdiction only if the amount of the claim does not exceed twenty-five pounds, and not less than fourteen days' notice of the application has been given to the society or company) settle that dispute according to the provisions of the Friendly Societies Act, 1896, and, where a dispute is settled under this section by a court of summary jurisdiction, the court may make such order as to costs as it considers fair and reasonable;

Provided that any such dispute may be referred to the Commissioner—

(*a*) by such collecting society, industrial assurance company, member or person as aforesaid, if the amount of the claim does not exceed fifty pounds and the legality of the policy is not questioned, and fraud or misrepresentation is not alleged; and

(*b*) in any case, by both parties, without restriction as to the amount of claim or the nature of the question to be decided;

and, where a dispute is so referred, the Commissioner may deal with the dispute as if it were a dispute referred to him under the provisions of section sixty-eight of the Friendly Societies Act, 1896, and the consent of the Treasury to his dealing therewith had been given.

(2) In any case where a doubt arises as to the continued existence of the person on whose life a policy of industrial assurance was taken out, the Commissioner may, on the application of the owner of the policy or of the society or company which issued the policy, award that the society or company shall pay to the owner of the policy the surrender value thereof at the time of the award, and the award shall be a discharge for all claims by or against the society or company in connection with the policy.

Provisions as to Collectors, &c.

Disabilities of collectors, &c.

33.—(1) A collector of a collecting society or industrial assurance company shall not be a member of the committee of management, or in the case of a company of the board of directors, or hold any other office in the society or company except that of superintending collectors within a specified area.

(2) A collector or superintendent shall not be present at any meeting of the society or company.

Restriction on employment of persons to procure new business.

34.—(1) A collecting society or industrial assurance company shall not, nor shall any person employed by such a society or company, employ any person not being a person in the regular employment of the society or company to procure or endeavour to procure any person to enter into a contract of industrial assurance, and no person not regularly in the employment of such a society or company shall procure or endeavour to procure any person to enter into such a contract.

(2) For the purposes of this section, references to regular employment shall include regular part-time as well as regular whole-time employment.

Notification of appointments of secretary and members of committee of management.

35.—(1) Every collecting society registered before the passing of this Act shall, within one month after the passing of this Act, and every collecting society registered after the passing of this Act or society which becomes a collecting society after the passing of this Act shall, within one month of the date when it is so registered or so becomes a collecting society, send to the Commissioner in such form as he may direct, the names of its secretary and of the members of its committee of management, and every such society shall, within fourteen days after the appointment of a new secretary or a new member of the committee of management, send to the Commissioner in such form as he may direct, the name of the person so appointed, together with such particulars in each case as he may require.

(2) This section shall come into operation on the passing of this Act.

Amalgamations, Transfers, and Conversions

Transfer of engagements of collecting societies.

36.—(1) Section seventy of the Friendly Societies Act, 1896, in its application to an amalgamation and transfer of engagements of collecting societies shall have effect subject to the following modifications—

(i) Before the assent required by that section is sought to be obtained, there shall, unless the Commissioner otherwise directs, be sent to each member a statement in such form and containing such particulars as the Commissioner may require, of the terms of the amalgamation or transfer, and the consideration proposed to be paid therefor, the manner in which that consideration is to be distributed, and the exact share therein which is to be paid to each person participating in the distribution:

(ii) An amalgamation or transfer shall not become effective unless sanctioned by the Commissioner, and the Commissioner, before sanctioning any such amalgamation or transfer, shall hear any representations made on behalf of any class of persons (including the employees of any society concerned) who allege that they are adversely affected by the amalgamation or transfer, and may require as a condition of his sanction that the terms of the amalgamation or transfer shall be modified in such manner as he may consider just.

(2) The said section as so modified shall apply to the transfer by a collecting society of its engagements to an industrial assurance company as if in subsection (2) thereof for the words "any other registered society" there were substituted the words "an industrial assurance company"; and section seventy-one of the Friendly Societies Act, 1896, so far as it enables a registered friendly society to amalgamate with or transfer its engagements to a company, shall not apply to a collecting society.

Transfer of business from company to society.

37.—The provisions of the Assurance Companies Act, 1909, as amended by this Act relating to the transfer of industrial assurance business or liabilities arising in respect of industrial assurance business from one industrial assurance company to another, shall, with the necessary modifications, apply to the transfer of such business or liabilities from an industrial assurance company to a collecting society.

Conversion of collecting society into company.

38.—(1) Section seventy-one of the Friendly Societies Act, 1896, so far as it relates to the conversion of a society into a company shall, in its application to a collecting society, have effect subject to the following modifications—

(*a*) A copy of the special resolution shall be sent to the Commissioner;

(*b*) If within one month after the copy of the special resolution is so sent to him the Commissioner gives notice in writing to the society that he objects to the conversion, the conversion shall not be effected without the sanction of the High Court or in the case of a society registered in Scotland of the Court of Session;

(*c*) On the application to the court for such sanction the Commissioner shall be entitled to appear and be heard.

(2) Without prejudice to the powers conferred by section seventy-one of the Friendly Societies Act, 1896, as so amended, the committee of management of a collecting society having more than one hundred thousand members may petition the court to make an order for the conversion of the society into a mutual company under the Companies Acts, 1908 to 1917, and the court may make such an order if, after hearing the Commissioner if he desires to be heard, and the committee of management, and other persons whom the court considers entitled to be heard on the petition, the court is satisfied, on a poll being taken, that fifty-five per cent at least of the members of the society over sixteen years of age agree to the conversion:

Provided that, before any such petition is presented to the court, notice of intention to present the petition shall be published in the *Gazette*, and in such newspapers as the court may direct.

(3) The court may give such directions as it thinks fit for settling a proper memorandum and articles of association of the company.

(4) When a collecting society converts itself into a company in accordance with the provisions of this section, subsection (3) of section seventy-one of the Friendly Societies Act, 1896, shall apply in like manner as if the conversion were effected under that section.

Offences, Notices, &c.

Offences.

39.—(1) Any collecting society which contravenes or fails to comply with any of the provisions of this Act, or any directions by the Commissioner given thereunder, shall be guilty of an offence under this Act and the provisions of the Friendly Societies Act, 1896, with respect to offences thereunder and to proceedings in respect of such offences shall apply to offences by societies under this Act:

Provided that the maximum penalty which may be inflicted for an offence under this Act shall be a fine not exceeding one hundred pounds or, in the case of a continuing offence, a fine not exceeding fifty pounds a day during which the offence continues.

(2) Any industrial assurance company which contravenes or fails to comply with any of the provisions of this Act, or any directions given by the Commissioner thereunder shall be guilty of an offence under this Act, and a company guilty of such an offence shall be liable to the like penalties, recoverable in the same manner, as in the case of a default in complying with any of the requirements of the Assurance Companies Act, 1909, and section twenty-three of that Act shall apply accordingly.

(3) If any collector of a collecting society or industrial assurance company, or any other person, contravenes or fails to comply with any of the provisions of this Act affecting such collector or other person, he shall be guilty of an offence under this Act and liable on summary conviction to a fine not exceeding fifty pounds.

(4) Where any body of persons not being a collecting society or industrial assurance company as defined by this

Act carries on industrial assurance business, any director, manager or secretary or other officer or agent of that body who is knowingly a party to the carrying on of such business shall, unless that body is exempted from the provisions of this Act, be guilty of an offence under this Act and be liable on summary conviction to a fine not exceeding fifty pounds for each day during which the offence continues:

Provided that, where a person is convicted of a second offence under this subsection, he may be sentenced to imprisonment with or without hard labour for a term not exceeding three months.

Any such body of persons as aforesaid shall also, without prejudice to any other penalty, be liable to pay to the owner of any policy of industrial assurance issued by them such sum as an industrial assurance company which has knowingly issued an illegal policy is under this Act liable to pay to the owner of such illegal policy.

(5) Notwithstanding any limitation on the time for the taking of proceedings contained in any Act, summary proceedings for offences under this Act, or for offences under the Friendly Societies Act, 1896, where the society by or in respect of which, or the person by or in respect of whom, the offence is alleged to have been committed is a collecting society or an officer of such a society, may be commenced at any time within one year of the first discovery thereof by the Commissioner, but not in any case after more than three years from the commission of the offence.

(6) The court by which a fine is imposed in pursuance of this Act may direct that the whole or any part thereof shall be applied in or towards the payment of the costs of the proceedings and subject to any such direction and, subject in England to section four of the Criminal Justice Administration Act, 1914, all such fines shall, notwithstanding anything in any other Act, be paid into the Exchequer.

4 & 5 Geo. 5, c. 58.

Penalties for falsification.

40.—If any person wilfully makes, orders, or allows to be made any entry or erasure in, or omission from a collecting book or premium receipt book, with intent to falsify that book, or to evade any of the provisions of this Act, he shall be liable on summary conviction to imprisonment with or without hard labour for a term not exceeding three months or to a fine not exceeding fifty pounds or to both such imprisonment and fine.

Notices.

41.—Where any notice is required by this Act to be served upon any member or other person, the notice shall be in writing, and either delivered or sent by post to him, or, in the case of a notice of default, so delivered or sent or left at his last known place of abode.

Bond Investment Business

Amendment of law relating to bond investment business.

42.—(1) Bond investment business shall, for the purposes of the Assurance Companies Act, 1909, include cases where the subscriptions are payable at periodical intervals of over two months, but less than six months, except where such business is sinking fund or capital redemption insurance business, and accordingly for paragraph (*e*) of section one of that Act the following paragraph shall be substituted—

"(*e*) Bond investment business, that is to say, the business

of issuing bonds or endowment certificates by which the company in return for subscriptions payable at periodical intervals of less than six months contract to pay the bond-holder a sum at some future date, and not being life assurance as herein before defined, or sinking fund or capital redemption insurance business."

(2) Where in return for subscriptions payable at periodical intervals of less than six months a person or body of persons corporate or unincorporate (not being registered or certified under the Acts relating to friendly societies, building societies, or trade unions) undertake, by prospectus or otherwise, to pay to the subscriber at a future date the amount of the subscriptions with interest thereon (with or without a right on the part of the subscriber to the return of his subscriptions in the meantime), such business shall, for the purposes of the Assurance Companies Act, 1909, be treated as bond investment business, and the card, book, or other document in which receipts of subscriptions are entered shall be treated as the instrument evidencing the contract, and the subscriber shall be treated as the owner of the policy, subject however to such modifications of the provisions of the Fourth, Fifth, and Sixth Schedules to that Act as may be prescribed by the Board of Trade for the purpose of adapting to such business as aforesaid the provisions of those schedules relating to bond investment business.

General

Regulations.

43.—The Commissioner may, subject to the approval of the Treasury, make regulations for prescribing anything which under this Act is to be prescribed and for imposing fees and generally for carrying this Act into effect and all regulations so made shall forthwith be laid before both Houses of Parliament, and, if an address is presented to His Majesty by either House of Parliament within the next subsequent twenty days on which that House has sat next after the regulations are laid before it praying that the regulations may be annulled, they shall thenceforth be void but without prejudice to the validity of anything previously done thereunder or to the making of new regulations. If the Session of Parliament ends before such twenty days as aforesaid have expired, the regulations shall be laid before each House of Parliament at the commencement of the next Session as if they had not previously been laid.

Provided that the regulations so made shall not be deemed to be statutory rules to which section one of the Rules Publication Act, 1893, applies.

56 & 57 Vict. c. 66.

Reports of Commissioner.

44.—The Commissioner in every year shall make a report of his proceedings under this Act, which may contain any comments he may consider desirable to make on the valuations, annual returns, or other documents or matters brought before him under this Act, and any correspondence in relation thereto, and the report shall be laid before Parliament.

Interpretation.

45.—(1) In this Act, unless the context otherwise requires—

The expression "collector" shall include every person, howsoever remunerated, who, by himself or by any deputy or substitute, makes house to house visits for the purpose of receiving premiums payable on policies of insurance

on human life, or holds any interest in a collecting book and includes such a deputy or substitute as aforesaid:

The expression "premium" includes contribution:

The expression "collecting book" includes any book or document held by a collector in which payments of premiums are recorded:

The expression "premium receipt book" includes any book or document held by the owner of a policy in which acknowledgments of receipts of premiums payable in respect of the policy are entered:

The expression "owner" in relation to any policy means the person who is for the time being the person entitled to receive the sums payable under the policy on maturity, and in the case of an illegal policy or a policy not within the legal powers of the society or company which issued it means the person who would be so entitled were the policy a legal policy or a policy within such powers:

The expression "rules" in relation to a company means the memorandum and articles of association of the company:

The expression "the Companies Acts" means the Companies Acts, 1908 to 1917, and any Acts repealed by the Companies (Consolidation) Act, 1908.

8 Edw. 7. c. 69. Other expressions have the same meaning as in the Friendly Societies Act, 1896.

(2) Where under this Act the Commissioner awards that a collecting society be dissolved and its affairs wound up, the award shall be made in the like manner and have the like consequences as if it were an award made under section eighty of the Friendly Societies Act, 1896, and may direct in what manner the assets are to be divided or appropriated:

Provided that the society may appeal against the award to the High Court or in the case of a society registered in Scotland to the Court of Session.

(3) The application of this Act to Scotland, the Isle of Man, and the Channel Islands shall be subject to the same modifications as are expressed in the Friendly Societies Act, 1896, with respect to the application of that Act, and for the purposes of this Act the Isle of Man and the several Channel Islands shall be deemed to be counties.

Short title, extent, commencement, and repeal.

46.—(1) This Act may be cited as the Industrial Assurance Act, 1923.

(2) This Act shall extend to Great Britain, the Isle of Man, and the Channel Islands.

(3) This Act, except as otherwise expressly provided, shall come into operation on the first day of January, nineteen hundred and twenty-four.

(4) The enactments mentioned in the Fifth Schedule to this Act are, except so far as they relate to Ireland, hereby repealed to the extent specified in the third column of that schedule.

SCHEDULES

FIRST SCHEDULE

Section 8.

Sections of Act to be contained in the Rules of Collecting Societies

Section 5. Prohibition on issue of illegal policies.

Section 9. Obligation to deliver policies and copies of rules.

Section 15. Balance sheets and audit.
Section 18. Provisions as to valuations.
Section 19. General meetings.
Section 20. Provisions as to proposals for policies.
Section 21. Forms of policies.
Section 22. Return of policies and premium receipt books after inspection.
Section 23. Notice before forfeiture.
Section 24. Provisions as to forfeited policies.
Section 25. Substitution of policies.
Section 26. Transfers from one society or company to another.
Section 27. Payment of claims.
Section 28. Policies to which 4 & 5 Geo. 5, c. 78 applies.
Section 31. Saving for certain policies issued before 3rd December, 1909.
Section 32. Disputes.
Section 34. Restriction on employment of persons to procure new business.
Section 40. Penalties for falsification.
Section 41. Notices.

SECOND SCHEDULE

ADDITIONAL PARTICULARS AS TO VALUATIONS Section 18.

1. An analysis as near as may be of the premium income of each of the five years preceding the valuation date into income arising from

(*a*) policies which were not of more than one year's duration at the date such income arose; and

(*b*) policies which were of more than one year's duration at the date such income arose.

Note. This analysis to be given separately for policies with weekly premiums and for policies with premiums payable at longer intervals than one week.

2. The amount, if any, by which the value of the Office Yearly Premiums as shown in respect of each item in the Form referred to under Heading No. 7 in the Fourth Schedule (A) to the Assurance Companies Act, 1909, has been reduced in order to secure that no policy shall be treated as an asset.

3. If the proportion of the annual premium income reserved as a provision for future expenses and profits as stated in answer to Question 5 of the Fourth Schedule (A) to the Assurance Companies Act, 1909, is not uniform for all policies of the same class, specimens of the proportion so reserved in respect of policies effected at such ages and having been in force for such periods as the Commissioner may select.

4. Specimen values of the net liabilities under policies (exclusive of any bonuses added) according to the basis of valuation adopted, in respect of each of the principal classes of assurances for policies effected at such ages and of such durations as the Commissioner may select.

5. A statement of the actual number of deaths at ages over ten years in the five years preceding the valuation date under policies for the whole term of life in comparison with the number of deaths which would have occurred if the mortality experience had been in exact agreement with the table of

mortality employed for the purpose of the valuation, to be given separately for decennial groups of ages.

THIRD SCHEDULE

Section 21.

PROVISIONS OF ACT TO BE SET OUT IN POLICIES

PART I

Section 20 (4).	Provisions as to proposals for policies.
Section 22.	Return of policies and premium receipt books after inspection.
Section 23.	Notice before forfeiture.
Section 24.	Provisions as to forfeited policies.
Section 25.	Substitution of policies.
Section 26.	Transfers from one society or company to another.
Section 27.	Payment of claims.
Section 32.	Disputes.
Section 41.	Notices.

PART II

Section 23.	Notice before forfeiture.
Section 24.	Provisions as to forfeited policies.
Section 41.	Notices.

FOURTH SCHEDULE

RULES FOR VALUING POLICIES

Sections 24, 25, 29.

1. The value of the policy is to be the difference between the present value of the reversion in the sum assured according to the contingency upon which it is payable, including any bonus added thereto, and the present value of the future net premiums.

2. The net premium is to be such premium as according to the assumed rate of interest and rate of mortality and the age of the person whose life is assured at his birthday next following the date of the policy is sufficient to provide for the risk incurred by the company or society in issuing the policy, exclusive of any addition thereto for office expenses and other charges:

Provided that—

(*a*) In the case of a policy other than a policy for the whole term of life issued before the person whose life is assured attained the age of ten years, the date of the policy may be assumed to be one year after the actual date, and, if it is so assumed, the term of the policy may be assumed to be one year less than the actual term:

(*b*) In the case of a policy for the whole term of life issued before the person whose life is assured attained the age of ten years, no account shall be taken of any period for which the policy was in force before the anniversary of the date of the issue of the policy next preceding the date on which the age of eleven years was attained:

(*c*) In the case of a substituted policy, the net premium shall be calculated with reference to such sum as, according to the practice of the society or company for the time being, would have been assured by the

premiums payable if the person upon whose life the substituted policy is issued had not been assured with the society or company before the issue of that policy.

RULE FOR ASCERTAINING THE AMOUNT OF A FREE PAID-UP POLICY

The amount of a free paid-up policy is to be a sum bearing the same proportion to seventy-five per cent of the value of the policy as the sum of one pound bears to the value of the reversion in the sum of one pound according to the contingency upon which the sum assured under the original policy was payable.

GENERAL RULES APPLICABLE BOTH FOR VALUING POLICIES AND FOR ASCERTAINING THE AMOUNT OF A FREE PAID-UP POLICY

1. Interest is to be assumed at the rate of four per centum per annum.

2. The rate of mortality is to be assumed according to the table contained in the Sixth column of Table G in the Supplement to the Sixty-fifth Annual Report of the Registrar-General.

3. The age of the person whose life is assured shall be obtained by adding to the age attained by him at his birthday next after the date of the issue of the policy, the duration of the policy in completed years at the date as at which the value of the policy is required to be ascertained.

4. In the case of a policy issued for a term other than the whole term of life, the remaining term at the date at which the value of the policy is required to be ascertained shall be obtained by deducting from the original term of the policy the duration of the policy in completed years at that date.

FIFTH SCHEDULE

ENACTMENTS REPEALED

Section 46.

Session and Chapter	Short Title	Extent of Repeal
59 & 60 Vict. c. 26	The Collecting Societies and Industrial Assurance Companies Act, 1896.	The whole Act.
9 Edw. 7. c. 49.	The Assurance Companies Act, 1909.	Section thirty-six.
12 & 13 Geo. 5. c. 50	The Expiring Laws Act, 1922.	So far as it continues the provisions of the Courts (Emergency Powers) Act, 1914, relating to policies of insurance.

APPENDIX II

FRIENDLY SOCIETIES ACT, 1924

[14 and 15 Geo. 5, Ch. 11]

A.D. 1924. An Act to amend sections one, sixty-two and sixty-five of the Friendly Societies Act, 1896, and for purposes connected therewith.

[29th May, 1924.]

BE it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows—

Qualifications for office of Chief Registrar.

59 & 60 Vict., c. 25.

1. A person who has held the office of Assistant Registrar for not less than five years shall be qualified to be appointed Chief Registrar, and accordingly section one of the Friendly Societies Act, 1896, shall have effect as if in subsection (4) thereof, after the words "of not less than twelve years' standing," there were inserted the words "or a person who has held the office of Assistant Registrar for not less than five years."

Assurances on children's lives.

2.—(1) Section sixty-two of the Friendly Societies Act, 1896 (which relates to assurances on children), both as originally enacted and as applied to trade unions and industrial assurance companies, shall have effect as if for that section the following section were substituted—

"A society or branch, whether registered or unregistered, shall not insure or pay on the death of a child under the ages hereinafter specified any sum of money which exceeds or which, when added to any amount payable on the death of that child by any other society or branch or by any trade union or industrial assurance company, exceeds the amounts hereinafter specified; that is to say—

(*a*) In the case of a child under three years of age, six pounds;

(*b*) In the case of a child under six years of age, ten pounds;

(*c*) In the case of a child under ten years of age, fifteen pounds."

(2) Section sixty-five of the Friendly Societies Act, 1896, shall have effect as if for the words "five years" there were substituted the words "three years," and as if for the words "ten years" there were substituted the words "six years," and as if at the end of subsection (1) thereof there were inserted the words "or for the payment in the whole of a sum exceeding fifteen pounds on the death of a child under ten years."

13 & 14 Geo. 5, c. 8.

(3) Subsection (1) of section four of the Industrial Assurance Act, 1923, shall be repealed from the words "except that" to the end of the subsection.

Short title, construction, and extent.

3.—(1) This Act may be cited as the Friendly Societies Act, 1924, and shall be construed with the Friendly Societies Acts 1896 and 1908, and those Acts and this Act may be cited together as the Friendly Societies Acts, 1896 and 1924.

(2) This Act shall not extend to Northern Ireland.

APPENDIX III

INDUSTRIAL ASSURANCE AND FRIENDLY SOCIETIES ACT, 1929

[19 and 20 Geo. 5, Ch. 28]

A.D. 1929.

An Act to permit the issue by Friendly Societies and Industrial Assurance Companies of policies of assurance on the duration of certain lives for a specified period, to validate certain endowment policies issued by such societies and companies, to exclude repayments of premiums under endowment policies from the computation of the maximum sums which may be paid on death by such societies and companies, and to make provision as to the rights of owners of certain endowment policies upon the surrender thereof.

[10th May, 1929.]

BE it enacted by the King's most Excellent Majesty by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows—

Extension of purposes for which policies may be issued.

1.—(1) Amongst the purposes for which registered friendly societies and industrial assurance companies may issue policies of assurance, there shall be included insuring money to be paid to the member or person assured on the duration for a specified period of the life of his parent, child, grandparent, grandchild, brother or sister, either with or without provision for the payment of money in the event of the death of any such person before the expiration of the period:

Provided that no such society or company shall insure or pay on the death of any person under such a policy as aforesaid, issued after the commencement of this Act, any sum of money exceeding a reasonable amount for funeral expenses.

(2) The issuing of such policies by a collecting society or an industrial assurance company shall, unless the premiums in respect thereof are payable at intervals of two months or more, be treated as part of the industrial assurance business of the society or company.

(3) In relation to such policies, subsection (2) of section four of the Industrial Assurance Act, 1923 (which makes provision as to the persons to whom payments may be made on the death of a child under ten years of age), shall, in lieu of section sixty-three of the Friendly Societies Act, 1896, apply to all registered friendly societies as it applies to collecting societies.

13 & 14 Geo. 5, c. 8.

59 & 60 Vict., c. 25.

Provisions as to repayment of premiums.

2. For the purpose of calculating the maximum sum which may be insured or paid under the last foregoing section or under section sixty-two of the Friendly Societies Act, 1896, no account shall be taken of any repayment of the whole or any part of the premiums paid in respect of any endowment policy, and sections sixty-three to sixty-six of that Act and subsection (2) of section four of the Industrial Assurance Act, 1923, shall not apply as respects any such repayment.

Rights of owners of certain endowment policies.

3.—(1) Where under any policy to which this section applies not less than one year's premiums have been paid, the owner of the policy shall be entitled at any time within one year from the date on which the last premium was paid or, if no premium has been paid since the date of the commencement of this Act, within one year from that date, to surrender the policy and to claim either—

(*a*) a free paid-up policy in conformity with the rules contained in the Schedule to this Act; or

(*b*) payment of a surrender value equal to ninety per cent of the value of the sum or sums payable under such a free paid-up policy as aforesaid, calculated in accordance with the last four rules contained in the Fourth Schedule to the Industrial Assurance Act, 1923;

and if any society or company fails to comply with any claim made in accordance with the provisions of this subsection, then, without prejudice to any other liability, the society or company shall, in the case of a friendly society not being a collecting society, be guilty of an offence under the Friendly Societies Act, 1896, and, in the case of a collecting society or industrial assurance company, be guilty of an offence under the Industrial Assurance Act, 1923.

(2) This section applies to any policy issued, or deemed under this Act to have been issued, in accordance with the provisions of section one of this Act and to any other endowment policy issued on the life of a child under ten years of age, being in either case a policy in force at some time after the thirty-first day of December, nineteen hundred and twenty-three.

(3) Every policy to which this section applies and every premium receipt book in respect of such a policy, being a policy or book issued after the thirtieth day of September, nineteen hundred and twenty-nine, by a collecting society or an industrial assurance company, shall set out the provisions of this section, and of the Schedule to this Act, printed in distinctive type, or, if the Industrial Assurance Commissioner consents, a statement in lieu thereof which, in the opinion of the Commissioner, sufficiently sets forth the effect of those provisions; and no registered friendly society shall, after the thirtieth day of September nineteen hundred and thirty, issue any policy to which this section applies unless the rules of the society contain a rule which, in the opinion of the Registrar of Friendly Societies, sufficiently sets forth the effect of the said provisions.

(4) If any such policy or premium receipt book as aforesaid does not comply with the provisions of the last foregoing subsection, or if any policy is issued in contravention of the said provisions, the society or company effecting the insurance shall in the case of a friendly society, not being a collecting society, be guilty of an offence under the Friendly Societies Act, 1896, and in the case of a collecting society or industrial assurance company, be guilty of an offence under the Industrial Assurance Act, 1923.

(5) Every collecting society and industrial assurance company shall cause every collector of the society or company to deliver, at least once within three months after the

commencement of this Act, at every house or other place at which he makes a visit for the purpose of receiving a premium payable on a policy of insurance on human life, a notice, in a form approved by the Commissioner, setting forth the effect of the provisions of this section and of the Schedule to this Act, and if any collector fails to deliver any notice in accordance with the requirements of this subsection he and the society or company of which he is a collector shall be guilty of an offence under the Industrial Assurance Act, 1923.

Retrospective operation of Act.

4. Any endowment policy issued before the first day of January, nineteen hundred and twenty-four, which would have been in force on that date if this Act had been in operation on and from the date on which the policy was issued shall be deemed for the purposes of this Act to have been in force on the said first day of January and, in the case of a policy of the description mentioned in section one of this Act, to have been issued in accordance with the provisions of that section, and as respects any endowment policy in force on, or issued since, that date, this Act shall be deemed to have been in operation on and from the date on which the policy was issued.

Short title, citation, construction, and extent.

5.—(1) This Act may be cited as the Industrial Assurance and Friendly Societies Act, 1929, and this Act and the Industrial Assurance Acts, 1923 and 1926, may be cited together as the Industrial Assurance Acts, 1923 to 1929, and this Act and the Friendly Societies Acts, 1896 to 1924, may be cited together as the Friendly Societies Acts, 1896 to 1929.

(2) For the purposes of this Act—

"Policy" includes any contract of assurance and the date of the making of any such contract shall be deemed to be the date of the issue of a policy; and

"Endowment policy" means a policy issued or deemed under this Act to have been issued in accordance with the provisions of section one of this Act, or a policy insuring money to be paid on the duration for a specified period of the life of the member or person assured, either with or without provision for the payment of money in the event of the death of that person before the expiration of the period.

(3) References in this Act to the Friendly Societies Act, 1896, and to the Industrial Assurance Act, 1923, shall be construed as references to those Acts as amended or applied by any subsequent enactment, and this Act in its application to collecting societies and industrial assurance companies shall be construed as one with the Industrial Assurance Acts, 1923 and 1926, and in its application to friendly societies, not being collecting societies, shall be construed as one with the Friendly Societies Acts, 1896 to 1924.

(4) This Act shall extend to Great Britain, the Isle of Man, and the Channel Islands.

SCHEDULE

Rules as to Free Paid-up Policies

Section 3.

1. The free paid-up policy shall assure payment on the events on which the sums assured by the surrendered policy were payable, of sums bearing the same proportion to those

sums (including any addition by way of bonus) as the amount of the premiums actually paid under the surrendered policy bears to the amount of the premiums which would have been payable under the surrendered policy had the full number of premiums become payable thereunder:

Provided that, where any sum has been paid by the society or company under the surrendered policy, before the surrender thereof, the sums assured by the free paid-up policy shall be computed on such basis as may be approved by the Industrial Assurance Commissioner.

2. Where the surrendered policy provided for payment of a sum by way of return of premium on any event, the free paid-up policy shall provide that on that event such part of the premium actually paid under the surrendered policy shall be repaid as would have been repayable on that event if the surrendered policy had remained in force.

APPENDIX IV

STATUTORY RULES AND ORDERS

1928. No. 580

INSURANCE

Industrial Assurance

THE INDUSTRIAL ASSURANCE (INDIVIDUAL TRANSFER) REGULATIONS, 1928, DATED JULY 26, 1928, MADE BY THE INDUSTRIAL ASSURANCE COMMISSIONER AND APPROVED BY THE TREASURY UNDER SECTION 43 OF THE INDUSTRIAL ASSURANCE ACT, 1923 (13 & 14 GEO. 5, C. 8).

In pursuance of the powers vested in me by the above-named Act and with the approval of the Treasury I, Sir George Stuart Robertson, K.C., Industrial Assurance Commissioner, hereby make the following Regulations—

1. The Industrial Assurance (Individual Transfer) Regulations, 1923, dated 11th December, 1923, are hereby rescinded.

2. The form of consent and document annexed thereto required by Section 26 of the above-named Act shall be that set out in the Schedule hereto.

3. If the society or company to which the transfer is to be made requires any information to enable it properly to complete the said form, it shall apply to the society or company from which the transfer is to be made, and it shall be the duty of the latter society or company to supply such information, on payment, if demanded, of a sum not exceeding one shilling for each policy in respect of which such information is required.

4. These Regulations may be cited as the Industrial Assurance (Individual Transfer) Regulations, 1928, and shall come into operation on September 1st, 1928.

SCHEDULE

INDUSTRIAL ASSURANCE ACT, 1923

SECTION 26

PRESCRIBED FORM OF CONSENT AND ANNEXED DOCUMENT

Name of the society or company which issued the existing[1] policy . . . . .

Policy No..... Date of policy.....

Name and address of the collector or agent to whom the last premium under the policy was paid . . . .

STATEMENT OF THE TERMS OF AND RIGHTS UNDER THE ABOVE-MENTIONED POLICY AND THE PROPOSED NEW POLICY RESPECTIVELY

Particulars as to which information must be given	Information with regard to existing[1] Policy	Information with regard to proposed new Policy
(1) Name of member or person assured	(1)	(1)
(2) Name of the person whose life is assured	(2)	(2)
(3) Amount of premium . .	(3)	(3)
(4) Interval at which premiums are payable . . .	(4)	(4)
(5) Ultimate sum or sums assured (including any bonus now attaching)—	(5)	(5)
(*a*) on death . . .	(*a*)	(*a*)
(*b*) on other event or events	(*b*)	(*b*)
(6) The date at which full benefit is payable	(6)	(6)
(7) Event or events, other than death, on which the said sum or sums become payable .	(7)	(7)
(8) Whether the policy is with or without profits . . .	(8)	(8)
(9) Any other benefits, including relief from premiums . .	(9)	(9)
(10) The earliest date on which—	(10)	(10)
(*a*) a free policy . .	(*a*)	(*a*)
(*b*) a surrender value .	(*b*)	(*b*)
can be claimed, and the amount		

[1] "Existing" policy includes a policy discontinued or allowed to be forfeited with intent to effect a transfer within the meaning of the section.

The consideration, if any, which has been or is to be paid for the transfer . . . . .

The full names and address of any person to whom such consideration has been or will be paid .

This document is furnished by the

.....

the society or company by which the new policy is to be issued.

Signed on behalf of the society or company.

Signature .....

Description .....

Date .....

CONSENT TO TRANSFER

I, the undersigned, being the member or person assured[1] by the existing policy above described, have read the above statement containing the terms of and rights under the said policy and the proposed new policy. I understand that I shall cease to have any rights whatever under my existing policy and I do hereby give my consent to the transfer.

Signed by the said .....

in the presence of

Witness's { Signature ..... / Address ..... / Occupation or Description ..... }

Signature .....

Address .....

Date .....

[1] If the member or person assured is an infant this consent must be signed by the parent or other guardian and a statement of the relationship added.

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